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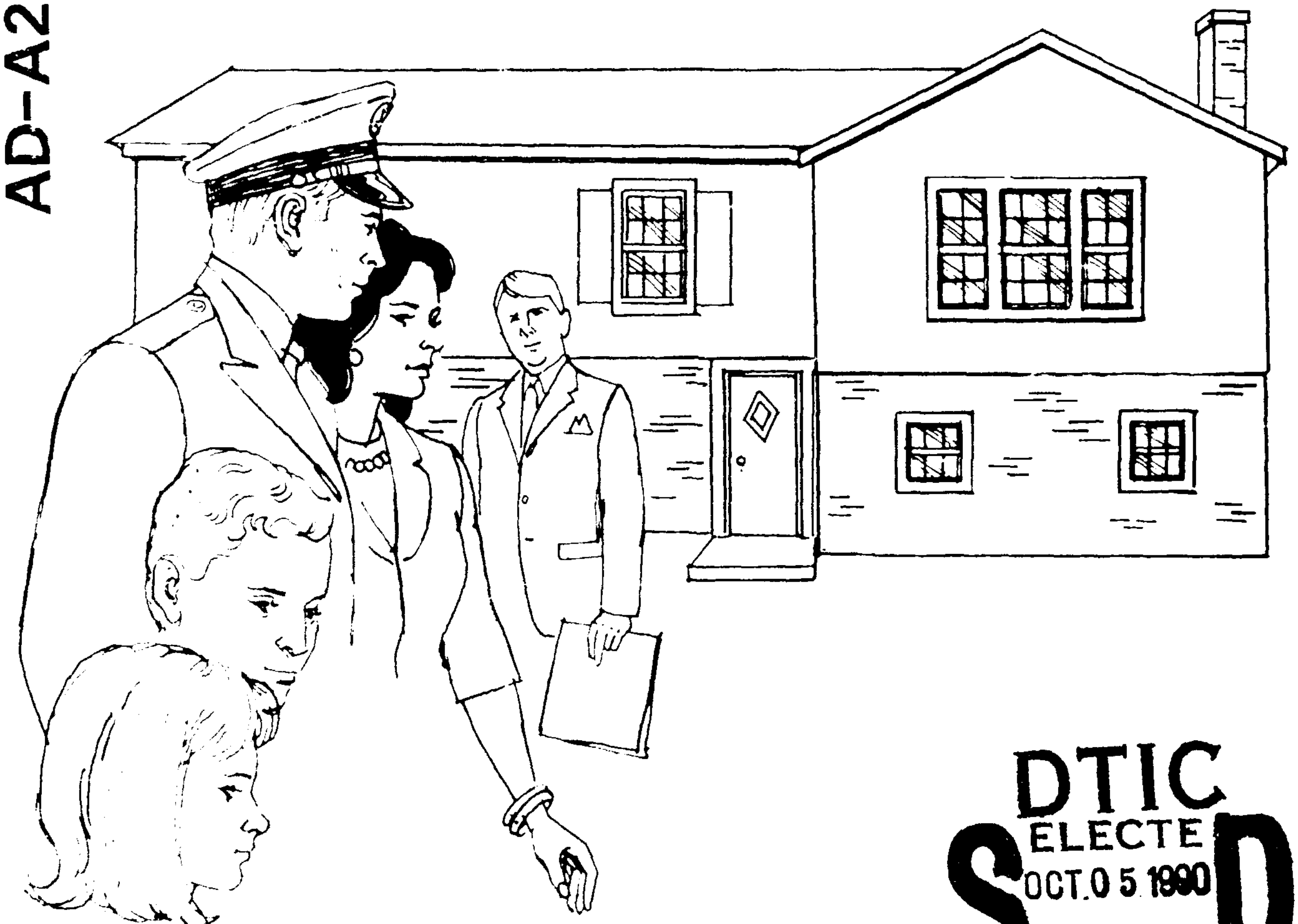
Affordable Housing for Military Famiiies

State/Federal Inducement Programs



Affordable Housing for Military Families

State/Federal Inducement Programs

Base/Community Guidance Manual XII
April 1989

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PREFACE

This report was prepared for the Office of Economic Adjustment, Office of the Assistant Secretary of Defense (FM&P). The study examines alternative ways for communities with a large military presence to increase or stabilize the supply of affordable housing available to military families.

The research was performed in conjunction with the Department of Defense Pilot Program for Military Family Housing managed by the Office of Economic Adjustment. Under that program grants totaling $1 million have been awarded to nine communities for affordable housing demonstration projects.

The statements contained in this report are solely those of the authors and do not necessarily reflect the views of the Department of Defense. Abt Associates assumes all responsibility for the accuracy and completeness of the information contained in this report.

EXECUTIVE SUMMARY

Prov.ding decent housing for low income families is a perennial problem for public policy in the United States. The Federal government has attacked the dilemma in many ways over the past four decades. In the 1950's the construction and management of publicly owned and operated housing was supported with direct Federal funding. A decade later the approach shifted to encouraging private developers, owners and managers to perform the task. Throughout the 1970's and early 1980's this approach was expanded to include a variety of tax incentives to encourage private sector involvement.

With the revisions of the Tax Reform Act of 1986 many of these incentives were eliminated or substantially reduced. Although a new incentive--the Federal Low Income Housing Tax Credit--was introduced the combination of the overall reduction in tax incentives and the impending expiration of large numbers of contracts for rental assistance (covering the units created in the 1960's and 1970's) portends an actual decline in the number of units available for low income families.

To help ensure that families of military members are able to obtain off base housing the Fed Department of Defense has relied on two programs: (1) the 801 construction program which creates new rental housing, and (2) the Variable Housing Allowance (VHA) program which provides a supplement to the Basic Allowance for Quarters (BAQ) for existing units in high cost areas. Although these two programs have generally been successful in meeting their goals, the rapidly rising costs of housing over the past decade in many urban areas has begun to limit their effectiveness. Moreover, neither program is targeted specifically towards providing affordable housing for families of military members in the lowest pay grades.

Keywords: Housing, dwellings, military forces [illegible] [illegible]tes, [illegible] Military dependents, Low costs, (KR)

This report was prepared as part of a Department of Defense effort to promote new initiatives in affordable housing for military families. It provides a summary and analysis of the types of programs that <u>military and civilian housing officials may wish to consider in designing policies to expand the stock of affordable housing in their communities</u>.

State Programs Available for Promoting Affordable Housing

As the Federal government has become less willing--for budgetary reasons--to introduce new housing assistance programs, state governments have become more active in promoting affordable housing. In addition to offering traditional financing incentives for rental housing construction--e.g., below market interest rate loans and tax exempt financing--illustrative state programs now include revolving loan funds for single family housing rehabilitation and new construction (Virginia), tax credits for first time homebuyers (Georgia and New York) and mortgage participation loans in which the state retains a portion of the equity in a home (California). In addition, state tax credits to encourage development of low income rental housing--modeled after the Federal Low Income Housing Tax Credit--have been introduced in California and New York. These are some examples of the programs of which local housing authorities may avail themselves to promote affordable housing.

The Federal Low Income Housing Tax Credit

One purpose of the Tax Reform Act of 1986 was to eliminate tax shelters that allowed wealthy individuals to avoid paying taxes. Among the shelters that were removed under the Act were those associated with real estate, including the favorable tax benefits for development of low income housing. As an attempt to at least partially offset those lost benefits, the new Federal Low Income Housing Tax Credit was established.

Under the new program tax credits are established to provide owners and investors with either a 70 percent return (for new construction or substantial rehabilitation) or a 30 percent return (for acquisition or minor rehabilitation) on the costs of development. Credits are earned over a ten year period and qualified projects must remain in low income status for a minimum of fifteen years. Rents are limited to 30 percent of household income and tenant eligibility is determined by comparing household income with the area median income. Two project options are available: a minimum of 20 percent of the project units must be reserved for households with incomes below 50 percent of the area median or 40 percent of the units must be reserved for households with incomes below 60 percent of area median income.

These standards apply to four person households; adjustments are provided for other size households.

Using the 20/50 percent standard it appears that most military families in pay grades E1 to E3 would qualify as tenants in tax credit projects. Under the 40/60 percent standard most E1 to E4 families would qualify. Under either option, some families in pay grades E-5 and E-6 would qualify in selected high cost urban areas. (In all cases, eligibility would be affected by the amount of non-military household income).

The DoD Pilot Program for Military Family Housing

To encourage both civilian and military housing officials to seek new methods to increase or stabilize the stock of affordable housing, the Congress authorized a pilot program (Section 2321 of the National Defense Authorization Act for Fiscal Years 1988 and 1989) to assist units of local government located in areas impacted by military bases. In July, 1988 nine community housing groups in California, Georgia, Florida, New York, Virginia and Puerto Rico were selected to receive grants for pilot projects covering rental rehabilitation, homeowner purchase and rehabilitation, organization and feasibility studies and establishment of a revolving fund for rent deposits. These projects are currently in the process of being implemented.

Guidelines for Encouraging Affordable Housing Initiatives

The Pilot Program is demonstrating many of the important steps that can be followed to initiate affordable housing programs. To begin the process, the local base commander and housing officer can forge an important link with community housing officials and the private sector by forming a joint military/civilian housing group. This step ensures that both the military's housing needs and the existing community programs and resources are understood by both groups and that a continuing relationship is established.

Next, the existing community programs for low income housing can be explored to determine whether they can serve affordable housing needs for military families living off base. Possible alternatives include rental rehabilitation, homeowner rehabilitation and rental assistance programs. A natural starting point is to review the state programs that, in conjunction with Federal programs, may be sufficient to launch housing projects targeted towards military families.

Finally, outside technical and financial assistance may be obtained from national organizations, such as the Local Initiatives Support Corporation (LISC), with its subsidiary the National Equity Fund (NEF), and the Enterprise Development Corporation. This type of assistance is particularly useful for larger projects involving new construction or major renovation.

To summarize, there are many approaches available to communities seeking to expand or prevent a decline in the stock of affordable housing. Where military families represent a large and stable population in the community, both groups can benefit from increased cooperation on affordable housing projects.

INTRODUCTION

Providing decent and affordable housing for every American family has been an objective of Federal government policy since the post WW II era when Congress passed the Housing Act of 1949. The progress that has been made over the past four decades is indisputable and, by combining the efforts of public and private organizations, a large share of the goal has been realized. Unfortunately for those families at the bottom of the earnings ladder, finding affordable rental housing remains difficult and, especially in high cost urban areas, threatens to become virtually impossible over the next decade unless new programs to encourage the retention and creation of low cost housing are implemented soon.

To assist military families in meeting their off base housing needs the Department of Defense (DoD) has relied on two programs to (1) create new rental housing units (the 801 construction program) and (2) enable families to obtain existing rental units in high cost areas (the Variable Housing Allowance program). For the most part these programs have both succeeded in meeting their objectives; however, the recent pattern of spiraling rents occurring in many of the urbanized areas where military bases are located has caused budgetary concerns and has begun to limit the effectiveness of these programs. Furthermore, neither program is designed to deal specifically with the issue of affordable housing.

In response to these trends and the continuing plight of the junior grade enlisted family member--who either does not qualify or must wait long periods to obtain base family housing--the Congress included in the National Defense Authorization Act for Fiscal Years 1988 and 1989 a provision for a pilot program to assist units of local government to increase the amount of affordable housing available to military families (Section 2321). The central purpose of the pilot program is to increase or stabilize the supply of affordable housing for military families. In carrying out the program the Secretary of Defense may make grants, enter into cooperative agreements, and supplement funds made available under Federal programs administered by agencies other than DoD in order to assist units of local government. Local housing authorities are also encouraged to create military/civilian planning groups that utilize community, state and Federal housing programs to benefit military families.

This report provides a summary and analysis of the types of affordable housing programs which military and civilian planning groups may wish to consider in designing policies to maintain or increase the stock of family units in their communities:

- Chapter 2 contains background material on the Federal government's low income housing programs, the current inventory of low income housing supported by those programs and the prospects for maintaining and increasing that stock in the coming years. The chapter also discusses the existing Department of Defense housing programs designed to assist military families in obtaining off base housing. The chapter concludes with a review of the affordable housing programs currently in use in four states--California, Georgia, New York and Virginia.

- Chapter 3 reviews the provisions of the Federal Low Income Housing Tax Credit, the tax incentive created by the Tax Reform Act of 1986 that replaced the previous set of tax advantages granted to developers of low income rental housing. Estimates of the number of military families that would be eligible for occupancy in tax credit units are presented for various family sizes and locations. Pro forma budgets for new construction projects are presented to illustrate the financial incentives offered by the credit program and the resulting patterns of equity, debt and state or local agency financing that appear feasible.

- Chapter 4 summarizes the Department of Defense Pilot Program for Military Family Housing. Specific attention is afforded the new construction projects being funded in the Ft. Drum area of New York, the homeownership loan program in Norfolk, Va., and the rental rehabilitation loan programs in Warner Robins, Ga. and Key West, Fla.

- Based on the information, programs and techniques described in Chapters 2 to 4, Chapter 5 develops guidelines for civilian and military leaders to work together in addressing affordable housing needs.

BACKGROUND ON AFFORDABLE HOUSING PROGRAMS

For many decades, the private housing market in the United States met the needs of low income renters, at least in part, through the so-called "trickle down" process. As units aged, they become available to renters further down the income scale. In recent years, evidence from annual housing surveys suggests that the trickle has slowed considerably. For example, the U.S. Department of Housing and Urban Development (HUD) has estimated that from 1973 to 1983 4.5 million units were permanently removed from the housing stock through either demolition or structured conversions; almost half of those units are estimated to have been occupied by low income households.[1]

This chapter reviews the Federal government's efforts to provide affordable rental housing and the prospects for increasing that stock in the future. Next, the Department of Defense (DoD) programs to assist military families in obtaining rental housing off base are summarized. The chapter concludes with a review of the affordable housing programs in four states: California, Georgia, New York and Virginia.

Federal Programs Affecting Affordable Housing: An Overview

During the 1950's expansion of low income housing was primarily accomplished through the construction and management of publicly owned and operated housing. The 1960's ushered in a new approach: the Federal government sought to encourage private developers, owners and managers to perform the task. Under a broad range of programs for elderly, poor and rural families, almost 2 million privately owned, Federally subsidized units for Low Income families have been constructed. Of this total, approximately 650,000 units receive support under the Federal Housing Administration's Below Market Interest Rate Programs (BMIR), rental assistance programs or the Section 236 Program. The remaining units are supported by rent guarantees

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[1] A Decent Place To Live, Report of the National Housing Task Force, Washington, D.C. March 1988, p. 6.

(the HUD Section 8 program), the Farmers Home Administration program and other HUD-insured programs.[1]

The 1988 Report of The National Low Income Housing Preservation Commission identified several factors that threaten the continued affordability of units supported by these programs:

- Rental assistance contracts are expiring with the result that owners will experience a drop in rental income and tenants will no longer be assured that they can afford market rents.
- Second mortgage notes on many older properties in the inventory will mature over the next five years. Ownership of the properties may revert to second note holders (who are under no obligation to preserve the units for low income families) if the current owners are unable to pay off second notes at maturity.
- Given the changes in tax benefits and expiration of rent subsidies, owners face lower after tax returns and reduced cash flows with which to meet repair and maintenance needs for an aging housing stock.
- Finally, more and more owners will be eligible to prepay their mortgages as their loans reach their twentieth anniversary. The peak pre-payment period will occur between 1991 and 1995.

Although any one of these factors poses a significant threat to the continued operation of this stock for low income families the Tax Reform Act of 1986 also produced a negative impact. The cornerstone of the Act was the passive loss limitation rules which disallowed use of passive losses from real estate to offset income from other sources such as salary, interest or dividends. The Act also lowered tax rates from 50 percent to 38.5 percent in 1987 and to 28 percent thereafter. Finally, the distinction between ordinary and capital gains tax rates was eliminated thus further eroding the attractiveness of continued investment and ownership of low income housing.

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[1] For a complete review of these programs see, Preventing the Disappearance of Low Income Housing, the Report of the National Low Income Housing Preservation Commission, National Corporation for Housing Partnerships, Washington, D.C. 1988, Chapter 1.

The Commission projected that if no government action is forthcoming to forestall the threats outlined above the combined losses of low income units over the next fifteen years will total almost 525,000 units due to prepayments and defaults.

CHANGES IN TAX-EXEMPT FINANCING

Over the period 1975-1986 the use of tax-exempt bonds for private purposes, such as new housing construction, increased considerably. In 1986 the Congress expressed concern that the growing use of these bonds not only distorted the flow of capital in the economy but also allowed wealthy individuals to avoid income taxes and raised the cost of financing traditional government investments. As a remedy to those fears, the 1986 Tax Reform Act imposed ceilings on the use of tax-exempt bonds for non-governmental purposes. Under the prior tax law there were separate limits for the following categories of bonds: industrial development bonds (IDBs), student loan bonds, mortgage revenue bonds and veterans' mortgage bonds. The 1986 Act groups all these bonds together and subjects them to a single ceiling.

The ability of housing finance agencies to finance rental housing has been reduced since under the prior law multi-family IDBs were not subject to any limits. Congress was also concerned that the tax benefits associated with tax-exempt financing were not truly targeted to low income households. Under previous law to be eligible for tax-exempt financing a multi-family housing project had to retain a minimum of 20 percent of its tenants with incomes below 80 percent of the area's median income. As a solution, the 1986 Tax Reform Act specifies that housing projects financed with tax-exempt bonds must set aside either 20 percent of their units for tenants with incomes at 50 percent or below, or 40 percent with incomes below 60 percent or below of area median income, respectively.

THE LOW INCOME HOUSING TAX CREDIT

Low income rental housing was especially hard hit by tax reform. Since cash flow and appreciation are usually low, this type of development relied heavily on tax benefits. Under the previous law, low income housing enjoyed a faster depreciation schedule over a shorter period than other residential property in addition to favorable treatments of rehabilitation expenditures and construction period interest.

To encourage the continued development of affordable housing after the revisions of the Tax Reform Act of 1986, Congress created the Low Income Housing Tax Credit. This incentive is designed to return either 70 percent or 30 percent of the costs (either construction or rehabilitation) of developing low income units in present value terms over a ten year period. The determination of the credit's value is based on two considerations: (1) whether the project is financed with Federal funds (such as the Community Development Block Grants) and, (2) whether the project consists of new construction (or substantial rehabilitation) as opposed to minor rehabilitation or simply purchasing an existing building. Projects which benefit from other Federal financing and minor rehabilitation projects are limited to the 30 percent credit while all other projects are eligible for the 70 percent credit over ten years.

The Existing Off Base Military Family Housing Programs

To assist military families in obtaining off base housing, the Department of Defense has relied on two programs over the past ten years. To supplement the Basic Allowance for Quarters--an allowance that varies by pay grade and dependent status, but not geographically--the Variable Housing Allowance program ensures that the differences in out-of-pocket rents that members pay across the U.S. are minimized. Under the schedules approved for 1989 the projected share of housing costs that a military member will pay out-of-pocket is estimated at 21.5 percent.

To increase the supply of housing units directly through new construction of rental units the Department has offered incentives to developers in the form of long term leases to build and then operate rental properties for military families. Under current authorized 801 off base housing programs about 8,125 units have been (or will be) constructed since the program was begun in 1983. Current authorizations for FY89 provides funding for 7,600 additional units.

Although these programs have produced positive results, the plight of the junior grade enlisted family member seeking off base housing in many areas of the United States remains severe. Often these families are not eligible for base housing or must wait long periods of time to be assigned government quarters. Although some lower grade enlisted families could qualify for other government housing assistance, such as HUD Section 8 Rental Assistance units, waiting times are often too lengthy to be practical.

THE DOD PILOT PROGRAM FOR MILITARY FAMILY HOUSING

The guidelines for the pilot program indicate that the Secretary of Defense shall select at least five units of local government which are severely impacted by the presence of military bases and personnel and which meet the following criteria:

- Have the potential to establish a joint civilian/ military effort to increase or prevent the decrease of affordable housing in the community served by the local government;
- Demonstrate a willingness, or potential willingness, to include private corporations as a source of contributions or loans to promote the pilot project; and,
- Receive a commitment by the local government unit to assure that a reasonable proportion of the housing units provided will be made available to military families.

To carry out the pilot program the Secretary is authorized to make grants, enter into cooperative agreements and supplement funds made available under other Federal programs administered by agencies other than DoD in order to assist units of local government, housing and redevelopment authorities and nonprofit housing corporations.

Under the initial grant competition held in June, 1988, nine awards totaling $1,000,000 were made to local housing groups in cities located in California, Georgia, Florida, Virginia, New York and Puerto Rico. These grantees are currently in the process of implementing their respective affordable housing initiatives. The details of these programs are presented in Chapter 4.

State Affordable Housing Programs

For many years state governments have also assisted in providing affordable housing for low income families. This state role has been expanded since 1980 as the Federal government has sought to limit its direct support for housing programs as part of the effort to reduce the national budget deficit. Many types of housing assistance are available through State Housing Agencies; this chapter provides a summary of the programs currently in use in four states: California, Georgia, New York and Virginia.

CALIFORNIA

Through the Division of Community Affairs, the principal housing and finance branch of the Department of Housing and Community Development, several affordable housing programs are available in California. The majority of these involve the construction or rehabilitation of rental or owner-occupied units. The specific programs are presented in more detail below.

Homeowner Assistance

The California Self-Help Housing Program - provides grants and loans to local government and nonprofit agencies to assist low and moderate income families in building or rehabilitating their homes with their own labor. Technical assistance grants fund the training and supervision of the self-help builder, project planning, loan packaging and counseling services and workshops. Mortgage assistance loans are used to reduce the cost of financing self-help units.

The Deferred Payment Rehabilitation Loan Program - provides local government agencies with deferred payment loans to assist with the rehabilitation of rental and owner-occupied low income housing. Since the establishment of the DPRLP in 1978, more than $10.4 million in loans have enabled 2,500 units to be rehabilitated.

The Rental Housing Construction Program - intends to increase the supply of affordable low and very low income housing in the state through three basic financing approaches: 1) direct financing which channels Housing and Community Development funds directly to local government agencies; 2) rural rental assistance which uses funds to write down rents on FHA financed projects; and 3) the California Housing Finance Agency set aside.

Pre-development Loan Program - through this program, local government and nonprofit agencies are provided with 7 percent loans to be used for a variety of pre-development expenses incurred in selecting the long term financing for the construction or rehabilitation of subsidized low income housing. Such expenses may include purchasing land or land options, paying advance fees for architectural, engineering, consultant and legal services.

The California Homeownership Assistance Program - enables eligible households to purchase housing that would otherwise not be affordable to them; for example, renters who would be displaced by condominium conversion are able to purchase their units through the program's assistance. The state provides up to 40 percent of the purchase price of a home in the form of a mortgage participation loan with an institutional lender, which results in the state receiving a share in the equity of the original investment when the property is sold. The balance of the financing comes from a private or public lending institution.

Section 8 Housing Assistance Rural Program - provides housing assistance payments from HUD to low income families in rural areas that do not have operational housing authorities.

Other programs operating through the Division of Community Affairs include a wide range of community development programs, such as the California Indian Assistance Program and the State Community Development Block Grant Program; other construction programs for low income mobile home residents and special user housing rehabilitation; and a variety of special housing programs targeted to the homeless, farm workers, senior citizens and earthquake victims.

State Tax Credits

In 1987, legislation establishing two new state tax benefits was enacted in California to stimulate the construction of new and the preservation of existing low income housing, especially Federally subsidized projects about to lose subsidies and convert to market rental rates. Modeled after the Federal tax credit (discussed in Chapter 3), eligible costs or qualified bases for the state tax credit, are the same as for the Federal credit. In order to receive the state tax credit, however, the low income units must remain as such for 30 years. In order to qualify for the state credit, developers must first qualify for the Federal tax credit.

GEORGIA

The Georgia Residential Finance Authority (GRFA) is the state agency responsible for administering Congressionally authorized housing programs in the State of Georgia. It was designated to be the housing credit agency which allocates the Federal tax credit authority in Georgia during the authorized program years of 1987-89.

The GRFA also offers a **Mortgage Credit Certificate Program** (MCC) for qualified homebuyers. By reducing the amount of Federal income tax an individual pays, the program makes more income available to qualify for a mortgage. Twenty percent of the mortgage interest is a dollar-for-dollar reduction of the homebuyer's tax liability. The remaining 80 percent of the interest qualifies as the usual itemized Federal income tax deduction. By filing a revised withholding form, one's yearly tax contribution is immediately reduced and take home pay increased. Specific terms of the loan, as well as the amount of the MCC credit, depends upon the individual loan and lender. MCCs are not available with GRFA home loan financing at below market fixed interest rate, or with refinanced loans.

The credit is intended primarily for first time homebuyers, purchasing a single family residence to be owner occupied. Maximum household income is $32,660, except in the Atlanta area where it may not exceed $37,500. The total maximum sales price may not exceed $53,910 except in the Atlanta, Augusta or other targeted areas.

First time homebuyers in Georgia are also assisted through the GRFA Single Family Homeownership Loan Program, which through the proceeds of the sale of tax exempt Mortgage Revenue Bonds provides below market rate financing, usually 1.5 percent below prevailing interest rates. Homes may include single family detached buildings, townhouses, approved condominiums, mobile homes, or manufactured housing and must be owner occupied for the length of the mortgage. Maximum annual income for households may not exceed $32,660, except in the Atlanta region where the maximum is $33,350. The sales price may not exceed $73,500 in the Atlanta area for either new or existing property; elsewhere the limitations are $53,910 for existing property, and $69,750 for new construction.

NEW YORK

The New York State Division of Housing and Community Renewal (DHCR) administers the following individual grant and loan capital programs for the development of housing and community revitalization:

Elderly Housing Plan - DHCR and the State Office for the Aging (SOFA) have been involved in a cooperative effort which launched the HOPE programs: RESTORE (emergency repair), Shared Housing Development Program, and HOST. SOFA and DHCR have developed an allocation plan which will give a preference and targets counties which have significant concentrations of elderly persons living in poverty, and substandard housing.

Low Income Housing Trust Fund (HTF) - provides up to $40,000 per dwelling unit and up to $55,000 in certain counties to rehabilitate vacant, underused residential property for new construction or to convert vacant non-residential property for occupancy by low income tenants, homesteaders, tenant-cooperators or condominium owners.

Rural Area Revitalization Program (RARP) - provides capital funding to not-for-profit organizations for a portion of the expenses of specific community revitalization projects in rural areas. Projects may be wait listed subject to Division of Budget approval of DHCR funding authority.

Rural Rental Assistance Program (RRAP) - administered in cooperation with the Farmers Home Administration (FmHA), Section 515 Rural Rental Housing Program, this program operates in conjunction with low interest Federal mortgage financing (1 percent, fifty-year term) providing rent subsidies for a five-year to fifteen-year term for low income elderly and family tenants residing in the projects. Applicants are required to submit a FmHA pre-application to be eligible for this program.

Housing Development Fund (HDF) - provides a revolving loan fund established by Article XI of the Private Housing Finance Law. Short-term financial assistance is provided to nonprofit developers for the construction or rehabilitation of housing projects for lower income persons. Nonprofit sponsors must first form an HDF Company pursuant to Article XI.

HUD Rental Rehabilitation Program (RRP) - provides up to $8,500 in rehabilitation funds per unit, which may be used for up to fifty percent of the cost of essential repairs. The program, which allows an 8 percent administrative fee, is targeted to privately owned, primarily residential rental property in eligible neighborhoods where the median income is less than 80 percent of the area median.

Urban Initiatives (UI) - provides funding to not-for-profit community based organizations in distressed urban areas for projects that improve the housing related physical conditions of local neighborhoods.

Housing Opportunities Program for the Elderly (HOPE) - provides capital funding to not-for-profits and municipalities for the acquisition, rehabilitation and/or construction of shared housing for low income elderly persons. Applicants may apply for up to $20,000 per dwelling unit to develop shared living residences, elder cottages, or accessory apartments.

Other Programs

The Revenue Bond (Section 8 Assisted) Program - provides financing for new construction or substantial rehabilitation of projects assisted under Section 8. The Federally Insured Mortgage Programs provide construction or mortgage loans for projects whose mortgages are Federally insured.

Secured Loan Rental Housing Program - developed in 1983, provides a flexible tax-exempt financing mechanism for a variety of affordable rental projects, including private for-profit, not-for-profit, and special needs housing. Through the program, HFA is able to lend the proceeds from the sale of tax-exempt bonds to qualified financial institutions or developers for the construction or rehabilitation of multi-family rental housing projects.

This program is specifically designed to complement the Federal Tax Credit for Low Income Housing. For-profit developers must meet the Federal requirements of renting either 20 percent of the units to households whose income does not exceed 50 percent of the area median income or 40 percent of the units to tenants with 60 percent or less of area median income (with adjustment for family size). Rents in these units may not exceed 30 percent of the applicable income ceiling. Projects must meet the set aside criteria, as well as remain rental property, during the "qualified project period." In general, projects eligible for state tax-exempt financing are also eligible for the low income housing tax credit, which provides a ten-year, dollar for dollar reduction in tax liability for the owners of certain qualified rental housing projects with low and moderate income units.

New Provisions and Program Initiatives

The DHCR and the New York State Legislature have recently established several new administrative and statutory provisions which guide the implementation of these programs.

1) **Unified Funding** - DHCR has completed the demonstration phase of the Unified Funding process initiated in June of 1987 which will now become permanent aspects of DHCR community development effort. Prospective applicants can (1) apply any time during the year, (2) receive a response within 15 business days.

2) **Low Income Housing Trust Fund (HTF)** - On June 22, 1988, the State Legislature passed certain new provisions concerning the Housing Trust Fund. These include:

   a) New Construction - is now an eligible activity. Prospective applicants must provide evidence as to why new construction is warranted.

   b) Private Developers - are now eligible applicants under certain circumstances. DHCR will wait list eligible applicants until November 1, 1988, when new administrative guidelines and documents will be completed.

   c) High Cost Counties - projects within the following counties are now eligible for an increased funding levels, high rate are up from $55,000/unit to $75,000/unit: Bronx, Columbia, Dutchess, Erie, Greene, Kings, Monroe, Nassau, New York, Niagara, Onondaga, Orange, Putnum, Queens, Richmond, Rockland, St. Lawrence, Suffolk, Sullivan, Ulster, Wayne, and Westchester. Higher funding is also available to cover added costs related to compliance with environmental or historical preservation laws as well as on a case-by-case basis where the applicant can demonstrate to the satisfaction of the Division that costs in its locality exceed the Statewide average for such costs.

3) **Rural Rental Assistance Program (RRAP)** - the State Legislature provided that contracts for the RRAP will be extended to a fifteen (15) year period rather than the previous five (5) year period.

4) **Rental Rehabilitation Program (RRP)** - this Federal program, administered by New York State, can now provide, a) from $5,000 - $8,500/unit in costs for rehabilitation, b) up to 10 percent for administrative costs, and c) additional rural areas are eligible.

VIRGINIA

Rental Rehabilitation Program - administered by the Virginia Housing Authority this program provides owners of rental properties with direct financial incentives, in the form of matching grants, to encourage them to rehabilitate units for low income families. In order to qualify for the program, a property must be located in a low income area and fail to meet housing quality standards for the Section 8 program.

The following Federal regulations affect the program. Eighty percent of the units in a project must be affordable to low income families: after rehabilitation, project rents must therefore not exceed the Section 8 Fair Market Rents. Grants are used to write down the cost of rehabilitating rental units, and monies may be in the form of direct grants, interest reduction payments, or other rehab assistance. Assistance through the program may not exceed 50 percent of rehabilitation costs, or a maximum based on unit size, whichever is less. (Maximum grant limitations are: $5000 for efficiencies; $6500 for one bedrooms; $7500 for two bedrooms; and $8500 for three or more bedrooms.) A minimum of $600 per unit must be invested to qualify. Projects must remain as low income rentals for a period of ten years.

In 1987, the Commonwealth established the Virginia Housing Partnership Revolving Loan Fund to increase the availability of decent, affordable housing for low and moderate income families. Several programs operate under the fund:

Multi-family Housing Rehabilitation Loan Program - provides low interest loans to assist owners in either rehabilitating properties to meet Section 8 standards, or making energy related improvements which exceed Section 8 standards.

In order to target low and moderate income individuals and families, the following targeting options have been established:

1. A minimum of 20 percent of the units must be reserved for persons with incomes of no more than 50 percent of area median income; or

2. A minimum of 40 percent of units must be reserved for persons with incomes of 60 percent or less of area median income; or

3. A minimum of 80 percent of the units reserved for persons with 80 percent or less of the area median income.

One of these options must be met for the entire duration of the loan. The loan amount per unit is determined by unit size. The target interest rate of loans is 6 percent, but may range from 2 percent to 8 percent depending on the project. Energy improvement projects carry a 0 percent interest rate.

Single Family Housing Rehabilitation Program - provides low interest loans for the rehabilitation of owner occupied or investor owned single family units to meet Section 8 standards. The purpose of the program is to increase the supply of decent and affordable single family housing for low and moderate income owners and renters.

To be eligible for the program, total household gross income must not exceed 80 percent of the area median income; or in the case of rental units, the total adjusted gross income of the occupants must not exceed 80 percent of area median income. Funds must be used first to bring the property up to Section 8 standards, and then, to make any energy improvements which may exceed Section 8 standards and have been approved by the State. The maximum loan for owner occupied properties is $20,000 per unit; for rental units, the maximum is dependent upon size of unit. The average interest rate available is 4 percent and the maximum rate is 8 percent. Energy improvement loans carry an interest rate of 0 percent.

*   *   *   *   *   *

As the above discussion of state programs illustrates, there are many types of assistance available to local housing officials. Often one or more programs can be combined together, or with a Federal incentive such as the Low Income Housing Tax Credit, to achieve more leverage from state funding programs than one program alone could provide. Thus, state affordable housing programs can be an extremely valuable resource for creating military/civilian affordable housing projects.

THE FEDERAL LOW INCOME HOUSING TAX CREDIT AND MILITARY FAMILY ELIGIBILITY

This chapter presents the details of the Low Income Housing Tax Credit program including credit rates, eligible property costs and tenant income and rent eligibility standards. Tax credits provide developers with an incentive to invest in affordable housing projects and to rent at least a portion of units to low income families for a minimum of fifteen years.

The potential numbers of military families that would be eligible tenants in tax credit projects at various locations are estimated using military income as a proxy for total household income. These estimates are greater than the actual number of eligibles because the income of a spouse may raise the total household income of a military family above the eligibility limits.

The chapter concludes with a discussion of the tax credit experience to date and presents a pro forma budget analysis of tax credit projects in high and moderate income areas.

Background

The Low Income Housing Tax Credit is part of the Tax Reform Act of 1986. One purpose of the tax reform act was to eliminate tax shelters that allowed wealthy individuals to avoid paying taxes. Among the shelters that were removed under the Act were shelters associated with real estate, including the development of low income housing. Under previous law, a low income housing development enjoyed significant tax benefits compared with other residential property. For example, it was allowed an accelerated depreciation schedule, and accelerated amortization of rehabilitation expenditures.

By removing these and other special tax provisions, the new tax laws have significantly curtailed the development of low income rental housing. As an attempt to at least partially offset these lost benefits, the new Low Income Housing Tax Credit was established. It is a three-year program enacted to provide tax credits for owners and investors in low income rental housing placed in service between 1987 and 1989. The total amount allocated to a state by the Federal government for the Low Income Housing Tax Credits is based on $1.25 per capita per year. If all the allocated tax credits were used, this could translate into construction, rehabilitation or acquisition of up to 100,000 units annually.

The tax credit was designed to return a present value of either 70 percent or 30 percent of certain development, rehabilitation or property acquisition costs over a ten year period. The annual tax credit percentages to obtain the stated returns for projects developed in 1987 are specified directly in the statute. For 1988 and 1989 projects, the tax credit percentage is calculated monthly by the Treasury Department, to provide a tax credit with a specified present value percentage of the qualified development costs of the project.

The tax credit is geared towards providing housing to very low income residents. In order to receive credits, either 20 percent of units must be reserved for households with incomes below 50 percent of area median, adjusted for household size (the 20/50 option), or 40 percent of units for households with incomes below 60 percent of median (the 40/60 option). Annual gross rents, including utilities, are limited to 30 percent of area median income for each household size. The amount of the credit allocated is in proportion to the number or square foot area (whichever is lower) of qualified low income units, where both the rent and income levels of occupants must meet the eligibility criteria.

Tax Credit Calculations

CREDIT RATES

The tax credit rates are established in order to provide owners and investors with either a 70 percent or a 30 percent present value return on allowable costs associated with low income housing development. The 70 percent return is applied to new construction and substantial rehabilitation. The 30 percent return is for acquisitions and minor rehabilitation as well as for construction and major rehabilitation if projects also receive Federal subsidies.

The tax credit for new construction in 1987 was 9 percent of qualified development costs for low income units for each of ten years when conventional financing is used, providing a lifetime present value return of 70 percent. A 4 percent credit applied if tax exempt financing or Federal subsidies was used, providing a lifetime present value return of 30 percent. For units placed in service in 1988 or 1989, the annual credit percentage for new construction is based on a present value of 70 (30) percent over the 10 year period. The exact rate is determined by the Treasury Department each month.

The tax credit for rehabilitation costs, where the total rehabilitation and related expenditures over a two year period exceed $2,000 per unit, was 9 percent of qualified costs for low income units placed in service during 1987 for conventionally financed projects, and 4 percent for projects with tax exempt or Federally subsidized financing. For units placed in service during 1988 or 1989 an annual credit percentage is calculated to provide a present value of 70 (30) percent of qualified costs related to rehabilitation.

Acquisition of an existing building placed in service during 1987 earned a tax credit of 4 percent per year for 10 years. If the building is placed in service in 1988 or 1989, the annual tax credit percentage will provide a present value of 30 percent over the 10 year period. The law assumes that 10 percent of acquisition costs are for land. Since land is not subject to depreciation it is also not eligible for the tax credit, so that only 90 percent of the acquisition price is eligible for credits.

Buildings undergoing renovations of under $2,000 per unit qualify for the 4 percent tax credit per year if they were placed in service in 1987 and for a 30 percent present value credit if they are placed in service in 1988 or 1989.

In all cases, the amount of the tax credit is determined by applying the tax credit percentage against the eligible basis--new construction, acquisition and renovation costs--of the property.

ELIGIBLE COSTS TO WHICH THE RATE IS APPLIES

The eligible costs for the 9 percent credit for new construction include all development costs less the value of the land. For major rehabilitation projects, rehabilitation expenditures of at least $2,000 per low income unit over a 24 month period qualify for the 9 percent credit. Other costs which can be applied to the tax credit include engineering, contractor and architectural fees, rehabilitation financing fees, and construction period interest.

The eligible costs for the 4 percent credit for acquisitions include all purchase costs, excluding the value of the land, but including minor rehabilitation costs. Costs associated with general use facilities in the project are also eligible, provided they are available to all project tenants at no additional cost. This assures that the tax credits are not used to provide facilities that could be made available only to market rate tenants who could afford to pay extra for amenities.

The credit percentage is applied to the eligible basis, based on the percentage of units or space (the *lesser* of the two) allocated to low income units. This restriction assures that developers do not allocate significantly different sized units to low income tenants while obtaining tax credits for costs associated with larger units.

If additional units are allotted to low income tenants at a later time, an additional tax credit equaling two-thirds of the amount of the original credit can be added for the qualifying units.

Eligibility

TENANT INCOMES AND RENTS

In order to qualify for the tax credit, a project must have a minimum number of qualified low income units, which must be occupied by low income families paying qualified rents. In most cases, either 20 percent of units must be reserved for households with incomes below 50 percent of area median, adjusted for household size, or 40 percent of units for households with incomes below 60 percent of median. (In some high cost cities, such as New York, the eligibility criteria have been reduced). As shown later in this section, military families in the lower pay grades will often be eligible and would provide project owners with a stable and reliable tenant population.

These income requirements are based on a family size of four and adjustments are made for different family sizes. It is assumed that housing costs are not related to family size on a one to one basis, and that as family size grows the additional housing costs increase at a decreasing rate. In other words, to house a family of two costs more than to house a single person, but less than twice as much, and as family size continues to increase the added housing costs grow at a slower rate.

Table 3.1 shows the adjustment factors for each family size. For example, in order for a two person household to obtain a similar level of housing as a four person household earning 50 percent of the area median, they would need to be earning 40 percent of the area median income under the 20/50 project option.

Table 3.1

ADJUSTMENTS TO ELIGIBLE MEDIAN INCOME BY HOUSEHOLD SIZE:
20/50 AND 40/60 PERCENT PROJECTS

Household Size	20/50 Option	40/60 Option
One Person	35%	42%
Two Persons	40	48
Three Persons	45	54
Four Persons	50	60
Five Persons	54	65
Six Persons	58	70
Seven Persons	62	74

If, for example, the area median income is $20,000, a four person household earning $10,000 would be considered similar to a two person household earning $8,000.

Annual gross rents, including utilities, are limited to 30 percent of the income limit for each household size set for each project. Rents charged to households depend only on project type and household size, not on a household's actual income.

For example, in an area where the median income is $20,000, a family of four in a 20/50 percent project would pay at most $250 per month for rent including utilities. In a 40/60 percent project the maximum rent for the same family would be $300. (Calculation: 50 percent of $20,000 is $10,000, 30 percent of which is $3000, the maximum annual rent, which translates into $250 per month. For a 40/60 percent project 60 percent of $20,000 is $12,000, 30 percent of which is $3,600, the maximum annual rent which translates into $300 per month).

A two person household in the same area would pay at most $200 in the 20/50 percent project and $240 in the 40/60 percent project. (Calculation: For the 50 percent project; 40 percent of $20,000 is $8,000, 30 percent of which is $2,400, the maximum annual rent which translates into $200 per month. For the 40/60 percent project 48 percent of $20,000 is $9,600, 30 percent of which is $2,880, the maximum annual rent, which translates into $240 per month).

The median incomes used in calculating eligible household income levels and rents for each project are determined using the U.S. Department of Housing and Urban Development (HUD) family incomes for each metropolitan area and for each county outside a metropolitan area. Table 3.2 provides the 1988 HUD median family incomes for each State. (Information for each metropolitan area and county are available from HUD).

ELIGIBILITY OF MILITARY FAMILIES

How many military families would be potentially eligible to rent units in tax credit projects and how is eligibility affected by differences in the median household income across states? To answer these questions precisely would require complete data on household income for military families--a data gathering task beyond the scope of this study. However, an approximation for household income is military income which is readily available from the payroll files maintained by each service. (For this study military income

Table 3.2

FISCAL YEAR 88 MEDIAN FAMILY INCOMES FOR STATES, METROPOLITAN, AND NON-METROPOLITAN PORTIONS OF STATES

		FY 88	
	Total	Metro	Non-Metro
Alabama	$24,200	$26,200	$20,800
Alaska	45,500	48,400	43,100
Arizona	30,000	32,100	23,500
Arkansas	23,300	27,100	20,900
California	36,200	36,700	27,000
Colorado	34,800	36,900	26,700
Connecticut	42,000	42,500	35,200
Delaware	32,500	35,400	26,800
Florida	29,100	29,700	23,100
Georgia	30,000	33,500	24,400
Hawaii	35,300	36,500	31,100
Idaho	27,000	32,400	25,700
Illinois	36,900	38,600	29,500
Indiana	31,500	32,600	29,300
Iowa	29,900	33,400	27,400
Kansas	31,500	35,600	27,500
Kentucky	24,200	28,700	20,600
Louisiana	28,500	31,000	23,100
Maine	27,700	30,500	26,200
Maryland	38,400	39,100	29,600
Massachusetts	37,700	38,300	31,200
Michigan	34,600	36,500	26,900
Minnesota	24,200	38,700	26,400
Mississippi	21,500	26,300	19,500
Missouri	30,400	34,400	23,000
Montana	28,100	31,000	27,200
Nebraska	29,400	34,200	25,800
Nevada	33,100	33,500	31,400
New Hampshire	35,000	37,600	31,700
New Jersey	37,000	37,900	n/a
New Mexico	27,300	31,400	23,700
New York	34,000	34,700	27,000
North Carolina	28,300	31,600	24,300
North Dakota	28,000	30,900	26,500
Ohio	32,300	33,100	29,200
Oklahoma	28,700	32,200	24,100
Oregon	30,700	32,500	27,200
Pennsylvania	31,900	32,700	27,300
Rhode Island	33,700	33,600	34,600
South Carolina	27,900	29,800	25,100
South Dakota	24,800	29,400	23,200
Tennessee	24,600	26,500	21,000
Texas	31,900	33,800	24,900
Utah	32,100	33,200	28,300
Vermont	29,100	35,600	27,400
Virginia	33,500	36,500	26,700
Washington	33,100	34,600	27,400
West Virginia	26,800	29,300	25,300
Wisconsin	32,400	34,900	27,300
Wyoming	34,200	36,500	33,200

Source: US Department of Housing and Urban Development is defined as the sum of basic pay, basic allowance for quarters and subsistence, all special pays such as submarine or sea pay and the variable housing allowance). Military income will be less than household income whenever a spouse or other family member is employed at least part-time; thus, using this measure will tend to overestimate the number of military families that will meet the tax credit eligibility test since total household income may be understated. We expect, however, that this bias will be less severe for the lower pay grades than the higher grades since non-member earnings will generally be lower for young military households.

Estimates of the number of potentially eligible military members were derived for each location with at least 1000 families living off base, including 124 military housing areas in 41 states. For each location the number of families living off base and their total 1988 military pay were estimated by pay grade (E-1 to E-9) and compared to the 50 percent and 60 percent area median income standards for three and four person families. The number of eligible families was then estimated by summing the number in each pay grade with military income that falls below the standard. A complete list of these estimates by location is shown in Appendix A for four and three person families.

Eligibility By Location

Table 3.3 shows the potential number of families estimated to be eligible under the low income tax credit program for selected locations with a wide range of area 1988 median incomes and assuming an average four person household. The estimated number of families is, of course, dependent on the size of the off base military population (and its pay grade distribution)--which is itself influenced by the amount of base housing available. None-the-less this sample suggests that, although the size of the off base family population varies widely between areas, the differences are not closely related to either area median income or geographic region. Thus, the potential number of eligible families as a proportion of the off base population should be a reliable measure for comparing eligibility across locations.

Table 3.3

DISTRIBUTION OF ELIGIBLE FAMILIES (Number and Percent of Off Base Population) BY LOCATION AND AREA MEDIAN INCOME[1]

Location	Total No. Enlisted With Dependents Off Base	Area Median Income 1988	Number of Potentially Eligible Families Below: 50% Area Median No.	50% Area Median Percent	60% Area Median No.	60% Area Median Percent
Washington D.C.	34,414	$46,900	6,982	20.3%	10,951	31.8%
Camp Pendleton CA	11,588	36,200*	3,499	30.2%	5,987	51.7%
Los Angeles CA.	7,724	35,500	831	10.8%	1,781	23.1%
San Diego CA	22,051	34,500	2,651	12.0%	5,220	23.7%
Oklahoma City OK	4,925	33,000	466	9.5%	1,210	24.6%
Ft. Hood TX	17,716	31,900	2,803	15.8%	7,702	43.5%
Takoma WA	13,815	31,000	1,735	12.6%	5,183	37.5%
Jacksonville Fla	9,568	30,000	57	0.6%	745	7.8%
Charleston SC	5,800	28,900	160	2.8%	660	11.4%
San Antonio TX	16,881	28,600	970	5.7%	2,181	12.9%
Fort Bragg NC	19,595	28,300*	94	0.5%	2,327	11.9%
Cap Lejeune NC	14,028	28,300*	751	5.4%	4,212	30.0%
Fort Sill OK	7,803	26,900	243	3.1%	1,124	14.4%
Ft. Campbell KY	8,714	24,200*	0	0.0%	1,615	18.5%

*1988 State Median Income

1 Family eligibility based on four person household.

The data in Table 3.3 show that family eligibility in relative terms tends to rise with increases in area median income. This result would certainly be expected if military income were fixed by pay grade across geographic locations. However, the variable housing allowance (VHA) is designed to compensate for differences in housing costs across areas and thus serves to increase military income in high cost areas. The pattern of eligibility shown in Table 3.3 suggests that the VHA does not completely offset the differences between military and civilian incomes across areas, resulting in larger proportions of eligible families in the higher income areas.

Eligibility By Pay Grade

Since the proportion of eligible families tends to increase with area median income, the average pay grade and period of service that military members can qualify for low income tax credit housing will also vary by location.

Table 3.4 summarizes the pay grade and location data where families would be likely to qualify. For a four person family, using a standard of 50 percent of area median income, pay grades E-1 to E-3 would be eligible in all locations; if the 60 percent standard is applied then grades E-1 to E-4 would qualify. Under the 50 percent standard, an E-4's income would fall below the standard in only select areas within eleven states while an E-5 could be eligible in the District of Columbia metropolitan area.

Under the 60 percent standard, an E-5's income would be low enough to qualify in selected areas within twelve states while an E-6 family could be eligible in Alaska and the District of Columbia metropolitan area.

Duration of Eligibility

Since military incomes rise regularly with changes in promotion and time-in-service an issue is raised as to how long families who initially rent units with qualifying incomes, but subsequently earn more than the 50 percent or 60 percent standard, will remain eligible. As discussed below, under the

Table 3.4

DISTRIBUTION OF STATES WITH ELIGIBLE ENLISTED FAMILIES
BY PAY GRADE: 20/50 PERCENT AND 40/60 PERCENT PROJECTS*

Pay Grade	Locations With Eligible Military Families for 20/50 Percent Projects. (Less than 50 percent of Area Median Income)
E1 to E3	All locations
E4	Alaska, California, Colorado (Denver), District of Columbia, Georgia (Atlanta), Illinois (Chicago), Maryland, New Jersey, Ohio (Cleveland), Virginia, Washington (Seattle)
E5	District of Columbia Metropolitan Area

Pay Grade	Locations with Eligible Military Families for 40/60 Percent Projects. (Less than 60 percent of Area Median Income)
E1 to E4	All locations
E5	Alaska, California, Colorado (Denver), District of Columbia, Georgia (Atlanta), Maine, Maryland, New Jersey, Rhode Island, Ohio (Cleveland), Washington (Seattle)
E6	Alaska, District of Columbia Metropolitan Area

* Using four person household standards

provisions of the tax credit legislation the property owner must certify annually the income of tenants in the qualifying units. In cases where the tenants income have risen above the standard (50 percent or 60 percent) the owner will remain in compliance so long as the next available unit is rented to an eligible tenant. The tax credit procedures specifically prohibit terminating a tenant's lease for non-qualifying income. Thus, even in a building with 100 percent low income units a substantial proportion of the units could be occupied by tenants whose incomes, after several years, exceed the maximum standard. So long as the owner complies with the "next available unit" rule the building would remain in compliance.

This aspect of the tax credit program seems well suited to both the project owners and the military's affordable housing needs. Since a typical first-term enlisted member's career path involves a two to three year tour at one location, during which promotion to E-4 or E-5 is probable, it is likely that a military tenant's income will rise beyond the standard. Normal rotation patterns would, however, ensure that the higher income tenants will eventually move out and that their replacements--lower grade personnel--will be seeking units. Thus, the property owners will normally be assured of a supply of tenants for their units on a schedule that meshes quite well with their requirements for compliance.

ONGOING REQUIREMENTS

Although the credits are provided for ten years, the income eligibility and rent requirements must be met for a period of fifteen years, otherwise Federal tax recapture penalties are levied. Project owners must certify compliance to the Treasury Secretary on an annual basis.

Projects must continue to meet the minimum set aside and rent level requirements. Failure to meet the requirements results in recapture of the accelerated portion of the tax credits plus interest for all prior years. The accelerated portion is the difference between the actual credit and the amount of credit that would be available if the total credit was paid over the entire 15 year compliance period, instead of over the 10 year period.

If the project fails to comply with the minimum 20 or 40 percent eligibility requirement, then the recapture applies to all units. If however, the non-compliance results from a reduction in the number of qualified units or in floor space, but the minimum is still met, then the recapture only applies to the units that are no longer in compliance.

Projects are still in compliance if tenant incomes increase up to 40 percent above the maximum level, provided that the next available unit of equal or smaller size is rented out to a low income qualified tenant at a qualifying rent.

Vacant units that were formerly occupied by low income tenants and otherwise qualified for tax credits can continue to count towards both the minimum eligibility and the qualifying tax credit amount, as long as reasonable attempts are made to fill the unit with a qualified tenant and no other vacant unit of comparable or smaller size is rented to non-qualifying tenants.

The Tax Credit in Practice

ALLOCATIONS

The government has allocated each state $1.25 per resident for each year 1987 through 1989 to be used for Low Income Housing Tax Credit. Within each state, the credits are allocated and administered by a state housing credit agency.

A minimum of 10 percent of the total tax credit allocation for each state for each year must be allocated to projects involving nonprofit organizations. The nonprofit must be a regular and continuous partner in the project, though it does not have to have an ownership interest.

In the original version of the law, tax credits could not be carried over. In other words, if a project is not completed in the year expected, the credits could not be used the following year, but rather would be forfeited. However, recent changes in the law allow projects which received an allocation of 1988 tax credits, to be eligible through the end of 1991. Carryover is limited to projects receiving credits for new construction or substantial rehabilitation.

EARLY EXPERIENCE

During 1987, states allocated only 19 percent of their total credit authority, about $54 million, to 1,362 projects containing over 38,000 units, of which 90 percent were low income units.

The majority of 1987 projects used a subsidy in addition to the tax credit. Approximately 60 percent of projects, accounting for 78 percent of units, used other subsides. Farmer's Home Administration (FmHA) Section 515, and HUD Section 8 Mod/Rehab were the most commonly used subsidies, each accounting for about 25 percent of the units.

Sixty percent of 1987 projects, accounting for 42 percent of units, were new construction. Twenty four percent of projects, accounting for 36 percent of units involved acquisition and rehabilitation. Rehabilitation alone accounted for 16 percent of units qualifying for tax credits, and acquisition alone accounted for seven percent of the units.

Projects which used tax credits in 1987 tended to be small. The average size of these projects was 33 units. Projects which did not receive other forms of subsidy averaged only 18 units per project, while those receiving Section 8 subsidies averaged 118 units per project. The vast majority (over 90 percent) of units developed in projects using the tax credit were low income units.

During 1988 the Tax Credit allocations rose to 68 percent of the total authority, or almost $220 million. Eight states (Idaho, Illinois, Kansas, Maryland, Massachusetts, New Mexico, Rhode Island, Vermont) and the District of Columbia allocated 100 percent of their credit authority, while only thirteen states allocated less than 50 percent of the credit authority. The vast majority (85%) of projects which used tax credits in 1988 went to for-profit developers and involved 100 percent low income units.

INVESTORS

The new tax laws limit the amount of tax credits that individual investors can use, and eliminates their use altogether for high income individuals. The maximum deduction on "active" income, derived from salaries, wages and businesses where the individual is an active participant, is $25,000 which provides a tax savings of $8,250, assuming a 33 percent marginal tax rate or $7,000 assuming a 28 percent marginal tax rate. However, this maximum amount is reduced dollar for dollar once a taxpayer's adjusted gross income exceeds $200,000 so with income over $250,000 the credit cannot be used.

Tax credits may be applied against passive income, such as income from rental property without limitation. Unused tax credits may be carried back three years and forward fifteen years.

Corporations are not restricted in the amount of income against which they can use the tax credit. Corporations can also deduct passive losses associated with projects from active income on other activities, further increasing the options for low income housing production.

Thus, while under previous tax laws the primary candidates for investment in low income housing were wealthy individuals who were looking for tax credits, the new tax credits shift the focus to less affluent investors and corporations. In the case of individual investors, the income and maximum tax credit restrictions mean that in most cases ownership of a project will be split among many small investors through syndication. Syndication generally involves finding several small investors to share in the costs and returns related to the project.

FINANCING LOW INCOME HOUSING PROJECTS WITH THE TAX CREDIT

Based on the last two years of experience, several characteristics of successful tax credit projects have emerged. Although there are exceptions, the projects undertaken to date tend to:

- require direct subsidies from public or charitable sources;
- be located in moderate income areas with relatively low development costs on a per unit basis;
- include a relatively small number of units;
- be competitive within the local low income housing market; and
- be occupied entirely or mostly by low income tenants.

Many of these characteristics are related directly to the structure of the credit program and the pattern of economic incentives it provides. The next section provides examples of pro forma budgets and rates of return for selected projects as a means of illustrating the financing patterns that tax credit projects tend to generate. These patterns in turn can provide community planners interested in promoting affordable housing projects with a road map for using the tax credit in combination with equity, debt and state or local government funding sources.

Pro Forma Budgets for Tax Credit Projects

Multi-family rental projects are usually financed by a combination of equity and debt financing. Where the tax credit is used a third source of funding--for example, a state housing agency or charitable organization--is often required. The mix of these funding sources will tend to vary depending upon the area median income (which determines the allowable rent levels and thus the market value of a project) and the construction or rehabilitation costs (which determine the level of credits and the investors rate of return).

Table 3.5 displays two new construction budgets (on a per-unit basis) for a high and a moderate income area, respectively. Construction cost data are based on estimates for the Washington DC area (high) and the suburbs of Norfolk, Va. (moderate). For each budget the associated depreciation allowances and estimated annual tax savings from depreciation losses and low income housing tax credits are shown on a per unit basis. Depreciation is an allowable deduction for active owner-investors only, eg. general partners. This example assumes that the owner(s) are active and therefore qualify for depreciation losses on the property.

Equity Financing

To illustrate the availability of equity financing for tax credit projects, Table 3.6 shows an investor's expected cash flow and rate of return on investment over the minimum fifteen year life of each project. The project is assumed to require three investor payments (1989 to 1991), be placed in use in 1991 and begin yielding a positive stream of benefits in

Table 3.5

PRO FORMA BUDGETS AND DEPRECIATION FOR TAX CREDIT PROJECTS: HIGH INCOME AND MODERATE INCOME AREAS

COST CATEGORY	HIGH INCOME Dollars Per Unit	MODERATE INCOME Dollars Per Unit
Property acquisition	$20,000	$5,000
New construction	$60,000	$30,000
Other organizational costs	$6,000	$3,000
TOTAL DEVELOPMENT COSTS	$86,000	$38,000
Less land cost	($20,000)	($5,000)
DEPRECIATION BASIS	$66,000	$33,000
ANNUAL DEPRECIATION ALLOWANCE		
Basis / 27.5 years	$2,400	$1,200
ANNUAL TAX SAVINGS		
Depreciation @ 28 percent	$672	$336
Tax Credit 1991 in Use	$5,100	$2,550

Table 3.6

INVESTOR RATE OF RETURN ANALYSIS FOR LOW INCOME TAX CREDIT PROJECTS: HIGH INCOME VERSES MODERATE INCOME AREA

High Income Area

Cash Flows	Year	Investor Contribution	Tax Savings	Net Investment	Annual Return Rate
initial investment	1989	($10,000)	$0	($10,000)	
initial investment	1990	($10,000)	$0	($10,000)	
initial investment	1991	($10,000)	$5,772	($4,228)	
tax credits plus deprec	1992		$5,772	$5,772	
tax credits plus deprec	1993		$5,772	$5,772	
tax credits plus deprec	1994		$5,772	$5,772	
tax credits plus deprec	1995		$5,772	$5,772	
tax credits plus deprec	1996		$5,772	$5,772	
tax credits plus deprec	1997		$5,772	$5,772	7.99%
tax credits plus deprec	1998		$5,772	$5,772	10.63%
tax credits plus deprec	1999		$5,772	$5,772	12.53%
tax credits plus deprec	2000		$5,772	$5,772	13.95%
depreciation	2001		$672	$672	14.08%
depreciation	2002		$672	$672	14.19%
depreciation	2003		$672	$672	14.29%
depreciation	2004		$672	$672	14.37%
sale of property	2005	$30,000	$672	$30,t72	16.96%
EQUITY INVESTMENT AS PERCENT OF UNIT COST		35%			

Moderate Income Area

Cash Flows	Year	Investor Contribution	Tax Savings	Net Investment	Annual Return Rate
initial investment	1989	($5,000)	$0	($5,000)	
initial investment	1990	($5,000)	$0	($5,000)	
initial investment	1991	($5,000)	$2,886	($2,114)	
tax credits plus deprec	1992		$2,886	$2,886	
tax credits plus deprec	1993		$2,886	$2,886	
tax credits plus deprec	1994		$2,886	$2,886	
tax credits plus deprec	1995		$2,886	$2,886	
tax credits plus deprec	1996		$2,886	$2,886	
tax credits plus deprec	1997		$2,886	$2,886	7.99%
tax credits plus deprec	1998		$2,886	$2,886	10.63%
tax credits plus deprec	1999		$2,886	$2,886	12.53%
tax credits plus deprec	2000		$2,886	2,886	13.95%
depreciation	2001		$336	$336	14.08%
depreciation	2002		$336	$336	14.19%
depreciation	2003		$336	$336	14.29%
depreciation	2004		$336	$3365	14.37%
sale of property	2005	$15,000	$336	$15,336	16.96%
EQUITY INVESTMENT AS PERCENT OF UNIT COST		39%			

1992. Tax credits are used up in the year 2000 and investors are assumed to receive their original investment back after fifteen years when the property is sold. No net income (or losses) from operations is assumed during this period.

Debt Financing

How much additional state or local housing agency financing is required to finance the project depends on how much debt financing can be secured. Conventional lenders use net rental income streams as one gauge of how much debt to place on any given project. To estimate the rental income for a tax credit project requires a computation of the qualifying rent levels for a typical unit in a specific location using the area median income standards.

Table 3.7 shows these calculations for a two person unit in the two different areas. Gross rental incomes are first computed and net income is then derived by assuming that tenant utilities are equal to 22 percent of gross rent, and operating expenses, taxes and vacancy losses are equal to 45 percent of gross rent. These percentages are typical for rental units in the two income areas.

Market values are calculated by capitalizing the annual net rental income streams for the two projects. A capitalization factor of 10 is typical for this type of rental project and, if lenders are willing to lend up to 90 percent of the market value, the available debt financing for the two projects will be $14,580 and $10,100, or 17 percent and 27 percent of the unit costs, respectively.

Total Project Financing

Table 3.8 summarizes the equity and debt financing that is estimated to be available for this project and derives the additional funding that would be required from other sources. The figures show that $41,420 and $12,890 per unit would need to be raised in the high and moderate income areas respectively. This difference illustrates the importance of the relationship between the construction costs in an area and the area median income in

Table 3.7

DEBT FINANCING ANALYSIS

RENT ANALYSIS		High Income Annual	High Income Monthly	Moderate Income Annual	Moderate Income Monthly
1988 Area Median Income		$45,000	$3,750	$31,200	$2,600
Qualifying Income Level @ (Two person family)	40%	$18,000	$1,500	$12,480	$1,040
Qualifying Gross Rent Level		$5,400	$450	$3,744	$312
less tenant paid util	22%	($1,188)	($99)	($824)	($69)
less repairs, taxes operating management @	45%	($2,430)	($203)	($1,685)	($140)
less vacancy factor @	3%	($162)	($14)	($112)	($9)
Net Rental Income (annual)		$1,620	$135	$1,123	$94
BANK FINANCING ANALYSIS					
Unit Market Value @	10	$16,200		$11,232	
Debt Financing @	90%	$14,580		$10,109	
DEBT FINANCING AS A PERCENT OF UNIT COSTS		17%		27%	

TABLE 3.8

SUMMARY OF COSTS AND FINANCING FOR LOW INCOME TAX CREDIT PROJECTS: HIGH VERSUS MODERATE INCOME AREA

	High Income		Moderate Income	
	Dollars Per Unit	Percent	Dollars Per Unit	Percent
Costs				
Property Acquisition	$20,000	23%	$5,000	13%
New Construction	$60,000	70%	$30,000	79%
Organizational	$6,000	7%	$3,000	8%
TOTAL COST PER UNIT	**$86,000**	**100%**	**$38,000**	**100%**
Financing				
Equity	$30,000	35%	$15,000	39%
Debt	$14,580	17%	$10,109	27%
Other (State Agency, etc.)	$41,420	48%	$12,891	34%
TOTAL FINANCING PER UNIT	**$86,000**	**100%**	**$38,000**	**100%**

determining the overall feasibility and funding requirements for a tax credit project. It also demonstrates one reason why to date tax credit projects have tended to be located in moderate income areas, since outside funding requirements tend to be much lower in these areas.

DOD PILOT PROGRAM FOR MILITARY FAMILY HOUSING

Recognizing the severity of the affordable housing problem for military families the Congress included in the National Defense Authorization Act for Fiscal Years 1988 and 1989 a provision for a pilot program to assist units of local government to increase the amount of affordable housing available in communities affected by a military population (Section 2321). The guidelines for the pilot program indicate that the Secretary of Defense shall select at least five units of local government which are severely impacted by the presence of military bases and personnel and which meet the following criteria:

- Have the potential to establish a joint civilian/military effort to increase or prevent the decrease of affordable housing in the community served by the local government;
- Demonstrate a willingness, or potential willingness, to include private corporations as a source of contributions or loans to promote the pilot project; and
- Receive a commitment by the local government unit to assure that a reasonable proportion of the housing units provided will be made available to military families.

To carry out the pilot program the Secretary is authorized to make grants, enter into cooperative agreements and supplement funds made available under other Federal programs administered by agencies other that DoD in order to assist units of local government, housing and redevelopment authorities and nonprofit housing corporations. Under the initial grant competition held in June, 1988, nine awards were made to local housing groups in cities located in California, Georgia, Florida, Virginia, New York and Puerto Rico. These grantees are currently in the process of implementing their respective affordable housing initiatives.

The pilot program is also intended to encourage the participation of private lenders and developers of affordable housing projects. Many cities and communities have the components needed for a successful housing program, but they are unable to coordinate them into a cohesive strategy. A national organization that specializes in creating public/private partnerships is the National Equity Fund (NEF). Using the new Federal tax legislation the NEF taps the investment capital of Fortune 500 corporations by offering them investments in community-sponsored affordable housing projects. The corporations receive Low Income Housing Tax Credits in return for their participation over a fifteen year period.

The NEF also provides valuable underwriting and technical assistance to strengthen projects, thereby increasing the confidence of lenders and attracting project financing. NEF projects are carried out by locally-based nonprofit community development corporations. The national offices of the NEF are located at: 118 North Clinton, Suite 401, Chicago, Illinois 60606 (312) 559-0763 and the Executive Director is Mr. Patrick Johnson.

Overview of the Pilot Program Grants

The relatively broad scope of the pilot program guidelines led to a wide range of proposals for grant awards. The two most frequent types of proposals selected for funding were rental rehabilitation programs--set up as revolving loan funds--and requests for organizational start-up funding. In five of the nine communities multiple projects were granted funding. Table 4.1 shows the grantees, the dollar awards and provides a brief description of each project(s) selected for funding.

TABLE 4.1

DOD PILOT PROGRAM FOR MILITARY FAMILY HOUSING:
DESCRIPTION OF PROJECTS

(Administered By the Office of Economic Adjustment, OASD (FM&P)

1. **GRANTEE:** San Diego Housing Commission, CA
   AMOUNT AWARDED: $20,000

   DESCRIPTION: Funds to supplement the local Rental Deposit Guarantee Program which provides guarantees to landlords that required deposits will be paid by program participants, i.e., military families.

2. **GRANTEE:** City of Sunnyvale, CA
   AMOUNT AWARDED: $50,000

   DESCRIPTION: Grant funds are provided for supplementing a revolving loan program for rental rehabilitation.

3. **GRANTEE:** Urban Housing Institute, CA
   AMOUNT AWARDED: $99,000

   DESCRIPTION: Funds are allocated for 1) the expansion of the Oakland Housing Authority public housing rehabilitation program for military families, and 2) support to Technical Advisory Group (TAG) on affordable housing issues.

4. **GRANTEE:** City of Hinesville, GA
   AMOUNT AWARDED: $200,000

   DESCRIPTION: Revolving loan fund for rehabilitation of rental units for military families. Grantee will also form a joint civilian military review committee to maintain the program.

5. **GRANTEE:** City of Warner Robins, GA
   AMOUNT AWARDED: $130,000

   DESCRIPTION: Revolving housing loan fund for rehabilitation of rental housing and refinancing of single-family housing to be made available to enlisted military families.

6. **GRANTEE:** City of Key West, FL
AMOUNT AWARDED: $141,000

DESCRIPTION: Revolving loan funds for 1) rehabilitation of rental units for military families, and 2) loans to military families to offset initial costs of rental housing (rent and utility deposits). City will also establish a Joint Military Civilian Affordable Housing Office to address the housing needs of military families.

7. **GRANTEE:** Development Authority of the North Country, NY
AMOUNT AWARDED: $130,000

DESCRIPTION: Funds allocated for 1) one-time start-up costs for a state-funded affordable housing program, 2) technical assistance to nonprofit organizations for developing housing program applications, and 3) seed money to nonprofit organizations and municipalities for pre-development costs.

8. **GRANTEE:** Ceiba Housing & Economic Development Corporation, Puerto Rico
AMOUNT AWARDED: $100,000

DESCRIPTION: Funds allocated for: (1) a revolving housing loan fund for rental rehabilitation and (2) joint military/civilian advisory planning group.

9. **GRANTEE:** Norfolk Redevelopment & Housing Authority, VA
AMOUNT AWARDED: $130,000

DESCRIPTION: Revolving loan fund to assist enlisted military homeowners in repairing and upgrading their properties in a city neighborhood conservation program.

Selected Pilot Program Projects

NEW CONSTRUCTION: FT. DRUM AREA, NEW YORK

The largest affordable housing projects to be supported under the pilot program are in upstate New York, the area surrounding the Army's Ft. Drum base near the city of Watertown. The grantee for these projects is the Development Authority of the North Country (DANC). Early in 1988 the State of New York appropriated $12,000,000 to the DANC for affordable rental housing needs in the area surrounding Ft. Drum. The appropriation guidelines are quite broad, limiting only the occupancy and time period for a project. The limits on occupancy of projects specify that only households with incomes below the county or state median--whichever is higher--are eligible tenants and all projects are subject to a minimum fifteen year regulatory agreement.

In November 1988 the DANC published a Notice of Funding and obtained development proposals for five projects, four of which were approved for funding. The pilot program funds are being used for technical assistance to qualify the housing projects for Federal tax credits and in one case for historical preservation tax credits. Four new construction rental projects are currently being planned by the North Country Affordable Development Co. Together the four projects will result in 336 units being constructed.

An example of one of these projects is the Kelsey Creek project. The total project cost is planned at $5,230,000 with financing provided as shown below:

Source	Amount	% of Total
Equity	$1,530,000	29
Debt	830,000	16
State Development Authority	2,870,000	55
Totals	$ 5,230,000	100

The Kelsey Creek project is being developed as 26 single family homes and 132 rental units for families and elderly tenants. The majority of the funding for this project will be provided by the State of New York appropriation.

Investors in the project will be eligible for $182,000 in low income housing tax credits each year over the first ten years of the project. At the end of the project after 15 years the investors will receive 60 percent of the sales proceeds.

HOMEOWNER REHABILITATION: NORFOLK, VIRGINIA

The Norfolk Redevelopment and Housing Authority (NRHA) is establishing a revolving loan program to assist enlisted military buyers or homeowners to repair and upgrade their properties. This pilot project supplements the Authority's Neighborhood Conservation Program, a program that has been providing low interest rate loans to property owners in the Ocean View area since 1969.

Enlisted members seeking to become homeowners in the Ocean View area are being targeted for eligibility by Navy housing officials. (According to a 1984 Census update for the City, 27 percent of all Navy households choose to live in Ocean View because of its proximity to Naval facilities). Screening of candidates is being performed by the NRHA--a function they have performed regularly in connection with their Conservation program. Creditworthiness is the principal criteria for eligibility although the physical condition of the property will also be considered. Those that qualify will be eligible for a maximum loan of $15,000 from the fund.

The loan principal would be deferred for 10 years and would bear a simple interest rate of 5 percent. After ten years, the homeowner would begin to repay the loan over a period of twenty years. Since many military members will move within the ten year period the loan will be assumable with the seller paying all accrued interest at the time of sale. These funds would then be placed in the revolving fund for future loans to other enlisted homeowners.

The NRHA believes that this type of program will provide enlisted members with the opportunity to purchase a home within their price range and have the available funds to upgrade or repair the property. Additional funding may be obtained, if necessary, through one of the already established loan or grant programs funded by the Community Development Block Grant Funds (CDBG). These funds are combined with private funds from local banks to provide monies for designated conservation areas in the Norfolk area. The Authority plans to set aside $95,000 from CDBG funds for 1989 to supplement the DOD pilot program grant of $130,000.

Assuming that each homeowner loan is approved for $10,000 the NRHA program will assist thirteen enlisted homeowners initially in purchasing and rehabilitating homes in Ocean View. If one or two homes are sold each year then the interest payments accruing to the fund will after five years begin to support additional loans. After ten years repayments of principal will begin and the revolving loan fund will be able to support further home purchases.

RENTAL REHABILITATION PROGRAM: KEY WEST, FLORIDA

The pilot program in Key West will establish a revolving loan fund to assist owners of rental property with the rehabilitation of existing units. Key West faces a difficult problem in that rents are the highest in the State due to the growing popularity of the area for tourists and vacation home buyers. New construction possibilities are limited by the lack of vacant land in the lower Florida Keys. Therefore, existing units have become increasingly expensive.

The Key West Housing Authority proposes to open a joint military/ civilian affordable housing office to promote the development of affordable housing for the military community. The revolving loan fund will provide loans for rehabilitation of existing units, as well as security and utility deposits for new tenants.

The Housing Authority's plans are to serve 40 families through this program. Rehabilitation loans will be made on a matching basis (50/50) up to $7900 for each unit. Approximately 15 units will be targeted initially. Low interest rate loans will also be used for about 25 families to provide security deposits.

HOMEOWNER LOANS AND REFINANCING: WARNER ROBINS, GEORGIA

The City of Warner Robins plans to increase and prevent the decrease of affordable housing units with pilot program funds through the establishment of a Revolving Housing Loan Fund. The Fund will provide low interest loans for rehabilitation and refinancing to landlords with single family homes outside the City's present "target area"--the area designated eligible for Community Block Grant and Georgia Rental Rehabilitation program funding. The loans will be targeted toward vacant homes (or homes already ren ed to military families) where the existing mortgage balance is less than $20,000. The loans will be offered under the following terms:

--Maximum loan amount	$25,000
--Interest rate	5% fixed
--Maximum Loan Term	240 months

The owner must enter into a loan agreement and accept the following conditions:

- To rent to military families for a period of not less than 5 consecutive years from the date of the loan;
- To maintain rents that do not exceed the sum of the tenant's basic and variable housing allowances (BAQ + VHA) by more than 10 percent for a two bedroom unit or more that 20 percent for a three bedroom unit;
- To limit annual rent increases to no more than 5 percent per annum;
- To place no further encumbrances or liens against the property for a period of five years;
- To allow the City of Warner Robins to make periodic inspections during the five year period;
- To provide equal opportunity housing for all military families; and
- To accelerate the loan maturity in the event of a default in any of the agreement terms.

Loan funds will be deposited into construction escrow accounts and will be used to pay contractors for repair work. The loans will be serviced by a local bank and monthly charges will be paid from other City housing budgets. The Military Family Housing Office at Robins Air Force Base will cooperate with the City in referring prospective military families to the landlords as necessary to maintain full occupancy.

With the $130,000 pilot program grant the Fund will provide loans for between 6 and 8 single family homes initially, assuming that average loans range from $15,000 to $20,000 each.

GUIDELINES FOR CREATING AFFORDABLE HOUSING

As demonstrated in the preceding chapters there are many types of programs available to local communities to expand or protect the stock of affordable housing in their areas. Although there are no "cookie cutter" solutions for eliminating shortages of affordable housing, there are several steps that can assist both military and civilian housing officials to initiate solutions. This chapter focuses on three steps that are appropriate in many locations.

Joint Military/Civilian Planning Groups

One of the first steps towards solving affordable housing problems for military families is the formation of a planning group consisting of community housing specialists, military housing officers, and private developers and other suppliers of housing. The initial purpose of this group is to exchange information about the needs of the local military family population and the existing programs that the community has in operation (eg. HUD rental rehabilitation, below market interest rate loans for first time homebuyers and other rental assistance services). The results of these exchanges will provide the foundation for exploring in detail the alternative strategies that are available to the community and will best serve the needs of the military families assigned to the local base. The planning group will also help to ensure that a permanent relationship between military and civilian housing officials is maintained.

Match Program Objectives With Community Resources

After the joint planning group has met and decided upon its objectives, the various program options may be organized into the different aspects of affordable housing. For example, in the Norfolk, VA pilot program the base housing officials are working with the Norfolk Redevelopment and Housing Authority (NRHA) to select Navy personnel who own homes or wish to own homes in a specific area of the city. Those families selected will receive rehabilitation loans up to $15,000 with deferred principal and interest payments for up to 15 years. In the design of this program the goals of the Navy to provide affordable housing opportunities and the NHRA to encourage rehabilitation of single family homes in an area of the city needing redevelopment are both realized. Moreover, the Navy is able to take advantage of the already well established procedures used by the NRHA to screen applicants and approve and monitor rehabilitation projects.

Alternatively, rehabilitation programs for rental properties (modeled after the existing HUD programs) may prove the most effective strategy as in the pilot programs being conducted in Key West (Fla), Warner Robins (Ga) and Sunnyvale (Ca). In each of those pilot programs the community housing agencies are experienced in running rental rehabilitation programs targeted at low income tenants; thus, providing expanded services focusing on military housing problems is a relatively straightforward extension of those existing programs.

Seek Outside Technical Assistance and Financing

To secure financing for larger affordable housing projects there are several national support groups that offer local military and community housing personnel a source of technical assistance and financing options. For example, the Local Initiatives Support Corporation (LISC) was founded in 1980 to provided assistance to Community Development Corporations working to revitalize neighborhoods in all areas of the United States. To date, the LISC has used its funds to leverage over $1 billion of investment in public/private partnerships targeted at projects in areas needing redevelopment and affordable housing. The national offices of LISC are located at 666 Third Avenue, New York, NY 10017 (212) 949-8560.

The National Equity Fund (NEF) is a subsidiary of the LISC. As discussed above the NEF focuses on raising corporation investment funds using the Low Income Housing Tax Credit. NEF's technical staff works with Community Development Corporations and local housing groups to develop projects which meet certain standards for investment.

A third source of technical assistance can be obtained from the Enterprise Development Company (EDC). Enterprise works with nonprofit groups in almost thirty cities providing counseling and technical advice on affordable housing projects. Its approach to low income housing focuses on cutting the cost of rehabilitation and financing. Like the LISC, EDC has established a subsidiary, the Enterprise Social Investment Corporation, to identify and develop new sources and methods of financing affordable housing. EDC's offices are located at 502 American City Building, Columbia, MD 21044 (301) 964-3600.

In summary, the development of closer ties between civilian and military housing officials can help forge new relationships and accomplish mutual objectives for affordable housing.

APPENDIX A:

Estimated Eligibility of
Military Families for Tax Credit

Projects by Location:
Four and Three Person Households

INCOME ELIGIBILITY OF MILITARY FAMILIES FOR TAX CREDIT HOUSING UNITS
(4 Person Households)

		Number of Military				Number of Potentially Eligible Families	
State	Base Name	Total	Off Base	Off Base W/Deps	Area Median Income	< 50% Median	< 60% Median
AL	Anniston/Ft.McClellan	5,655	4,917	2,363	22,600	0	359
AL	Fort Rucker*	6,899	5,451	3,248	24,200	40	223
AL	Huntsville	3,320	2,194	1,248	31,900	141	234
AL	Montgomery	6,005	5,153	3,866	27,200	6	160
AR	Little Rock	6,648	5,245	3,505	29,100	20	452
AZ	Phoenix	9,622	8,027	4,602	33,100	703	1,427
AZ	Fort Huachuca*	6,163	4,346	2,164	30,000	193	547
AZ	Davis-Monthan AFB*	5,567	4,405	2,533	30,000	61	403
AZ	Yuma	4,100	3,137	1,461	23,300	0	0
CA	Oakland	6,038	4,766	2,480	40,100	627	1,116
CA	San Francisco	4,753	3,144	1,426	42,500	340	573
CA	Castle AFB*	5,191	4,276	2,255	36,200	771	1,133
CA	Lemore NAS*	3,714	2,622	1,178	36,200	314	541
CA	Camp Pendleton*	31,118	30,110	11,588	36,200	3,499	5,987
CA	Ventura*	3,980	3,071	1,655	36,200	174	378
CA	Barstow/Fort Irwin*	4,670	3,155	1,420	36,200	618	873
CA	George AFB*	5,367	3,958	1,907	36,200	640	994
CA	Edwards AFB*	4,403	2,506	1,045	36,200	265	565
CA	San Bernadino	5,511	5,244	3,149	30,300	10	294
CA	Twenty Nine Palms MCB*	8,263	7,099	2,652	36,200	1,357	1,737
CA	Sacramento	10,669	8,635	4,748	33,800	490	1,017
CA	Vallejo/Travis AFB	10,785	8,153	3,757	36,700	487	1,067
CA	Los Angeles	17 749	14,489	7,724	35,500	831	1,781
CA	San Diego	54 560	50,717	22,051	34,500	2,651	5,220
CA	Riverside	3,990	3,303	1,788	30,300	6	227
CA	Santa Clara County*	2,815	2,438	1,357	36,200	32	290
CO	Denver	18,373	15,818	8,069	39,500	2,435	4,175
CO	Colorado Springs	30,378	26,417	15,302	31,200	1,874	5,338
CT	New London	7,327	5,881	2,667	36,800	308	662
DC	Washington DC, Metro**	59,657	51,978	34,414	46,900	6,982	10,951
DE	Dover AFB*	4,653	3,142	1,537	32,500	263	427
FL	Eglin AFB*	14,524	11,859	6,909	29,100	14	936
FL	Jacksonville	15,077	14,240	9,568	30,000	57	745
FL	Patrick AFB*	3,718	2,308	1,246	29,100	1	22
FL	Miami	5,209	3,526	1,801	30,800	11	305
FL	Orlando	15,129	13,524	3,059	31,600	691	1,247
FL	Panama City	5,397	4,302	2,495	25,900	8	305
FL	Pensacola	11,339	10,237	4,829	27,500	44	340
FL	Tampa	6,919	6,127	4,151	27,300	6	327
GA	Atlanta	4,777	4,526	3,607	36,300	343	954
GA	Fort Gordon*	9,223	8,284	4,500	30,000	623	1,217
GA	Fort Benning*	19,420	14,720	6,462	30,000	1,009	2,208
GA	Robins AFB*	4,631	3,299	2,028	30,000	30	373
GA	Savannah	4,057	3,464	1,819	28,600	8	216
GA	Fort Stewart*	14,623	11,759	6,146	30,000	891	2,662
GA	Moody AFB*	3,269	2,977	1,878	30,000	44	592
ID	Mountain Home AFB*	3,905	2,624	1,281	27,000	4	202
IL	Chanute AFB*	6,068	4,747	1,736	36,900	655	1,025
IL	Great Lakes Navracen*	23,794	20,347	5,956	36,900	2,238	3,233

ELIGIBILITY OF MILITARY FAMILIES FOR TAX CREDIT HOUSING UNITS
(4 Person Households)

		Number of Military				Number of Potentially Eligible Families	
State	**Base Name**	**Total**	**Off Base**	**Off Base W/Deps**	**Area Median Income**	**≤ 50% Median**	**≤ 60% Median**
IL	Scott AFB*	7,223	5,611	3,643	36,900	54	579
IN	Indianapolis/ Ft. Harrison	5,287	4,719	3,589	33,900	81	292
KS	Fort Riley*	16,586	13,322	6,971	31,500	1,107	2,876
KS	Wichita/McConnell AFB	3,828	3,233	2,084	37,000	662	1,083
KS	Fort Leavenworth*	2,606	1,727	1,284	31,500	21	141
KY	Fort Campbell*	22,106	17,809	8,714	24,200	0	1,615
KY	Fort Knox*	14,573	10,283	5,208	24,200	210	784
LA	England AFB*	3,227	2,642	1,505	28,500	6	281
LA	Fort Polk*	15,179	11,105	5,332	28,500	422	2,676
LA	New Orleans	3,825	3,357	2,416	31,900	18	266
LA	Shreveport/Barksdale	6,283	5,338	3,250	30,400	122	566
MA	Fort Devens/Ayer	5,556	3,876	1,641	41,100	638	906
MA	Hanscomb AFB	3,321	2,303	1,202	41,100	88	282
MD	Aberdeen Proving Grounds*	4,541	3,181	1,689	38,400	338	559
MD	Fort G.G. Meade*	6,764	4,644	2,672	38,400	274	764
MD	Patuxent River	3,545	2,758	1,571	38,400	125	658
MN	Minneapolis/St. Paul	1,564	1,519	1,279	40,700	49	295
MO	St. Louis	1,985	1,757	1,458	35,700	17	17
MO	Whiteman AFB*	3,234	2,205	1,141	30,400	280	443
MO	Fort Leonard Wood*	7,494	4,649	1,841	30,400	370	567
MS	Gulfport	11,662	9,763	4,163	23,500	0	396
MT	Malmstrom /Great Falls	3,950	2,503	1,172	29,300	47	347
NC	Morehead/Cherry Pt.*	9,359	6,951	3,239	28,300	94	744
NC	Camp Lejeune*	39,309	34,995	14,028	28,300	751	4,212
NC	Fort Bragg/Pope AFB*	42,947	37,696	19,595	28,300	94	2,327
NC	Seymour Johnson AFB*	4,552	2,930	1,454	28,300	5	233
ND	Grand Forks	5,483	3,146	1,278	27,200	3	167
ND	Minot AFB*	5,591	3,200	1,193	28,000	18	169
NE	Omaha/Offutt AFB	13,239	10,659	6,484	34,200	479	1,170
NH	Portsmouth/Kittery, ME	4,002	2,772	1,397	33,500	230	459
NJ	Ft Dix/McGuire/ Lakehurst*	16,095	9,657	3,290	37,900	1,281	1,885
NM	Holloman/Alamogordo*	5,825	4,391	2,379	27,300	2	458
NM	Albuquerque/Kirtland	5,334	3,485	1,983	32,100	116	228
NM	Cannon AFB/Clovis*	3,636	2,649	1,376	27,300	10	352
NV	Nellis AFB/Las Vegas	10,894	9,639	5,863	32,200	648	1,693
NY	Ballston Spa/Albany	3,831	3,437	1,987	31,400	0	245
NY	Rome/Griffiss AFB	4,495	3,660	1,992	27,900	4	230
NY	Fort Drum/Watertown*	8,043	4,862	1,525	34,000	613	818
OH	Cleveland	6,988	4,945	1,629	35,000	963	1,152
OH	Columbus	1,531	1,480	1,258	33,200	5	65
OH	Wright-Patterson AFB*	10,438	8,329	5,346	32,300	260	504
OK	Atlus AFB*	3,504	2,713	1,555	28,700	3	349
OK	Fort Sill/Lawton	15,973	14,327	7,803	26,900	243	1,124
OK	Oklahoma City	8,293	7,610	4,925	33,000	466	1,210
PA	Carlisle Barracks*	2,377	1,893	1,553	31,900	6	87
PA	Philedelphia/Camden NJ	5,227	5,009	2,670	34,700	403	751

INCOME ELIGIBILITY OF MITLTARY FAMILIES FOR TAX CREDIT HOUSING UNITS
(4 Person Households)

State	Base Name	Number of Military Total	Off Base	Off Base W/Deps	Area Median Income	Number of Potentially Eligible Families < 50% Median	< 60% Median
PA	NAS Willow Grove*	2,095	1,841	1,339	31,900	13	69
RI	Newport	3,891	3,053	1,539	34,900	79	403
SC	Beaufort/Parris Island*	11,360	9,905	2,675	27,900	252	629
SC	Charleston	10,911	9,299	5,800	28,900	160	660
SC	Columbia/Fort Jackson	9,505	7,330	3,626	33,300	573	882
SC	Myrtle Beach*	3,387	2,600	1,408	27,900	5	242
SC	Sumter/Shaw AFB*	6,135	4,531	2,586	27,900	2	402
SD	Rapid City/Ellsworth	6,809	4,977	2,642	26,900	0	491
TN	Memphis	10,696	9,666	3,367	26,800	629	898
TN	Nashville	1,261	1,240	1,096	29,800	0	0
TX	Abilene/Dyess AFB	5,542	4,599	2,709	27,300	0	518
TX	Austin/Bergstrom AFB	6,052	5,314	3,523	36,700	341	846
TX	Dallas	2,281	2,242	1,709	37,600	96	269
TX	El Paso	15,843	12,208	6,481	23,900	120	640
TX	Lubbock/Reese AFB	2,502	2,179	1,182	29,400	3	185
TX	Goodfellow AFB*	3,129	2,821	1,465	31,900	214	427
TX	San Antonio	35,415	32,096	16,881	28,600	970	2,181
TX	Fort Hood*	28,952	32,968	17,716	31,900	2,803	7,702
TX	Wichita Fls/Sheppard	6,068	4,869	1,648	28,500	493	493
TX	Fort Worth	5,167	4,522	2,766	34,800	256	626
UT	Ogden/Hill AFB	5,289	4,138	2,382	34,800	449	925
VA	Quantico/Woodbridge*	7,587	6,125	2,358	33,500	270	616
VA	Hampton/Newport News	20,422	16,975	10,413	31,200	265	2,536
VA	Norfolk/Portsmouth	42,122	39,097	22,906	31,200	756	4,886
VA	Petersburg/Fort Lee	5,093	3,905	2,003	33,500	427	633
WA	Bremerton	4,229	3,539	2,237	32,600	174	422
WA	Seattle	1,743	1,479	1,089	38,200	57	252
WA	Spokane	4,433	2,922	1,408	29,900	327	498
WA	Takoma	30,012	25,284	13,815	31,000	1,735	5,183
WA	Whidbey Island*	4,484	3,656	1,998	33,000	164	408
AK	Anchorage	12,896	9,330	5,491	48,400	2,949	3,759
AK	Fairbanks***	6,792	4,142	1,889	41,600	780	1,165
HI	Honolulu County	46,399	30,495	12,755	36,500	1,923	4,681
	TOTALS	12,988	32,106	47,535	51,159	61,726	147,612

* State Median Income used
** O1s included in 60 percent of Median
*** W1s included in 60 percent of Median

INCOME ELIGIBILITY OF MILITARY FAMILIES FOR TAX CREDIT HOUSING UNITS
(3 Person Households)

State	Base Name	Number of Military: Total	Number of Military: Off Base	Number of Military: Off Base W/Deps	Area Median Income	Number of Potentially Eligible Families: < 45% Median	Number of Potentially Eligible Families: < 54% Median
AL	Anniston/Ft.McClellan	5,655	4,917	2,363	22,600	0	177
AL	Fort Rucker*	6,899	5,451	3,248	24,200	0	40
AL	Huntsville	3,320	2,194	1,248	31,900	141	234
AL	Montgomery	6,005	5,153	3,866	27,200	6	31
AR	Little Rock	6,648	5,245	3,505	29,100	20	452
AZ	Phoenix	9,622	8,027	4,602	33,100	13	703
AZ	Fort Huachuca*	6,163	4,346	2,164	30,000	27	193
AZ	Davis-Monthan AFB*	5,567	4,405	2,533	30,000	1	403
AZ	Yuma	4,100	3,137	1,461	23,300	0	0
CA	Oakland	6,038	4,766	2,480	40,100	304	627
CA	San Francisco	4,753	3,144	1,426	42,500	340	573
CA	Castle AFB*	5,191	4,276	2,255	36,200	374	771
CA	Lemore NAS*	3,714	2,622	1,178	36,200	196	314
CA	Camp Pendleton*	31,118	30,110	11,588	36,200	586	3,499
CA	Ventura*	3,980	3,071	1,655	36,200	70	174
CA	Barstow/Fort Irwin*	4,670	3,155	1,420	36,200	273	618
CA	George AFB*	5,367	3,958	1,907	36,200	369	640
CA	Edwards AFB*	4,403	2,506	1,045	36,200	265	402
CA	San Bernadino	5,511	5,244	3,149	30,300	10	294
CA	Twenty Nine Palms MCB*	8,263	7,099	2,652	36,200	948	1,357
CA	Sacramento	10,669	8,635	4,748	33,800	62	490
CA	Vallejo/Travis AFB	10,785	8,153	3,757	36,700	487	1,067
CA	Los Angeles	17 749	14,489	7,724	35,500	138	831
CA	San Diego	54 560	50,717	22,051	34,500	1,356	2,651
CA	Riverside	3,990	3,303	1,788	30,300	6	43
CA	Santa Clara County*	2,815	2,438	1,357	36,200	0	126
CO	Denver	18,373	15,818	8,069	39,500	1,168	2,435
CO	Colorado Springs	30,378	26,417	15,302	31,200	68	1,874
CT	New London	7,327	5,881	2,667	36,800	308	662
DC	Washington DC, Metro**	59,657	51,978	34,414	46,900	3,587	7,338
DE	Dover AFB*	4,653	3,142	1,537	32,500	49	263
FL	Eglin AFB*	14,524	11,859	6,909	29,100	0	936
FL	Jacksonville	15,077	14,240	9,568	30,000	0	745
FL	Patrick AFB*	3,718	2,308	1,246	29,100	1	1
FL	Miami	5,209	3,526	1,801	30,800	11	305
FL	Orlando	15,129	13,524	3,059	31,600	348	1,247
FL	Panama City	5,397	4,302	2,495	25,900	8	8
FL	Pensacola	11,339	10,237	4,829	27,500	0	120
FL	Tampa	6,919	6,127	4,151	27,300	6	6
GA	Atlanta	4,777	4,526	3,607	36,300	92	343
GA	Fort Gordon*	9,223	8,284	4,500	30,000	170	623
GA	Fort Benning*	19,420	14,720	6,462	30,000	563	1,009
GA	Robins AFB*	4,631	3,299	2,028	30,000	0	183
GA	Savannah	4,057	3,464	1,819	28,600	0	58
GA	Fort Stewart*	14,623	11,759	6,146	30,000	39	891
GA	Moody AFB*	3,269	2,977	1,878	30,000	2	229
ID	Mountain Home AFB*	3,905	2,624	1,281	27,000	0	563
IL	Chanute AFB*	6,068	4,747	1,736	36,900	522	655
IL	Great Lakes Navracen*	23,794	20,347	5,956	36,900	1,635	2,238

INCOME ELIGIBILITY OF MILITARY FAMILIES FOR TAX CREDIT HOUSING UNITS
(3 Person Households)

State	Base Name	Number of Military: Total	Number of Military: Off Base	Number of Military: Off Base W/Deps	Area Median Income	Number of Potentially Eligible Families: < 45% Median	Number of Potentially Eligible Families: < 54% Median
IL	Scott AFB*	7,223	5,611	3,643	36,900	54	171
IN	Indianapolis/ Ft. Harrison	5,287	4,719	3,589	33,900	81	292
KS	Fort Riley*	16,586	13,322	6,971	31,500	473	2,876
KS	Wichita/McConnell AFB	3,828	3,233	2,084	37,000	274	662
KS	Fort Leavenworth*	2,606	1,727	1,284	31,500	16	141
KY	Fort Campbell*	22,106	17,809	8,714	24,200	0	42
KY	Fort Knox*	14,573	10,283	5,208	24,200	0	210
LA	England AFB*	3,227	2,642	1,505	28,500	6	49
LA	Fort Polk*	15,179	11,105	5,332	28,500	45	1,042
LA	New Orleans	3,825	3,357	2,416	31,900	4	100
LA	Shreveport/Barksdale	6,283	5,338	3,250	30,400	0	566
MA	Fort Devens/Ayer	5,556	3,876	1,641	41,100	638	906
MA	Hanscomb AFB	3,321	2,303	1,202	41,100	88	160
MD	Aberdeen Proving Grounds*	4,541	3,181	1,689	38,400	338	559
MD	Fort G.G. Meade*	6,764	4,644	2,672	38,400	58	274
MD	Patuxent River	3,545	2,758	1,571	38,400	125	315
MN	Minneapolis/St. Paul	1,564	1,519	1,279	40,700	6	49
MO	St. Louis	1,985	1,757	1,458	35,700	2	17
MO	Whiteman AFB*	3,234	2,205	1,141	30,400	5	280
MO	Fort Leonard Wood*	7,494	4,649	1,841	30,400	370	567
MS	Gulfport	11,662	9,763	4,163	23,500	0	152
MT	Malmstrom /Great Falls	3,950	2,503	1,172	29,300	3	167
NC	Morehead/Cherry Pt.*	9,359	6,951	3,239	28,300	6	94
NC	Camp Lejeune*	39,309	34,995	14,028	28,300	155	4,212
NC	Fort Bragg/Pope AFB*	42,947	37,696	19,595	28,300	0	594
NC	Seymour Johnson AFB*	4,552	2,930	1,454	28,300	5	233
ND	Grand Forks	5,483	3,146	1,278	27,200	0	51
ND	Minot AFB*	5,591	3,200	1,193	28,000	0	169
NE	Omaha/Offutt AFB	13,239	10,659	6,484	34,200	96	1,170
NH	Portsmouth/Kittery, ME	4,002	2,772	1,397	33,500	4	230
NJ	Ft Dix/McGuire/ Lakehurst*	16,095	9,657	3,290	37,900	809	1,281
NM	Holloman/Alamogordo*	5,825	4,391	2,379	27,300	0	72
NM	Albuquerque/Kirtland	5,334	3,485	1,983	32,100	17	116
NM	Cannon AFB/Clovis*	3,636	2,649	1,376	27,300	10	72
NV	Nellis AFB/Las Vegas	10,894	9,639	5,863	32,200	16	648
NY	Ballston Spa/Albany	3,831	3,437	1,987	31,400	0	6
NY	Rome/Griffiss AFB	4,495	3,660	1,992	27,900	0	45
NY	Fort Drum/Watertown*	8,043	4,862	1,525	34,000	320	613
OH	Cleveland	6,988	4,945	1,629	35,000	835	963
OH	Columbus	1,531	1,480	1,258	33,200	1	5
OH	Wright-Patterson AFB*	10,438	8,329	5,346	32,300	42	260
OK	Atlus AFB*	3,504	2,713	1,555	28,700	0	349
OK	Fort Sill/Lawton	15,973	14,327	7,803	26,900	243	524
OK	Oklahoma City	8,293	7,610	4,925	33,000	9	466
PA	Carlisle Barracks*	2,377	1,893	1,553	31,900	0	6
PA	Philedelphia/Camden NJ	5,227	5,009	2,670	34,700	146	403

INCOME ELIGIBILITY OF MILITARY FAMILIES FOR TAX CREDIT HOUSING UNITS
(3 Person Households)

		Number of Military			Area	Number of Potentially Eligible Families	
State	Base Name	Total	Off Base	Off Base W/Deps	Median Income	< 45% Median	< 54% Median
PA	NAS Willow Grove*	2,095	1,841	1,339	31,900	0	69
RI	Newport	3,891	3,053	1,539	34,900	19	175
SC	Beaufort/Parris Island*	11,360	9,905	2,675	27,900	115	252
SC	Charleston	10,911	9,299	5,800	28,900	42	660
SC	Columbia/Fort Jackson	9,505	7,330	3,626	33,300	573	882
SC	Myrtle Beach*	3,387	2,600	1,408	27,900	5	5
SC	Sumter/Shaw AFB*	6,135	4,531	2,586	27,900	2	402
SD	Rapid City/Ellsworth	6,809	4,977	2,642	26,900	0	5
TN	Memphis	10,696	9,666	3,367	26,800	0	629
TN	Nashville	1,261	1,240	1,096	29,800	0	0
TX	Abilene/Dyess AFB	5,542	4,599	2,709	27,300	0	6
TX	Austin/Bergstrom AFB	6,052	5,314	3,523	36,700	341	846
TX	Dallas	2,281	2,242	1,709	37,600	96	269
TX	El Paso	15,843	12,208	6,481	23,900	0	120
TX	Lubbock/Reese AFB	2,502	2,179	1,182	29,400	0	185
TX	Goodfellow AFB*	3,129	2,821	1,465	31,900	49	214
TX	San Antonio	35,415	32,096	16,881	28,600	606	2,181
TX	Fort Hood*	28,952	32,968	17,716	31,900	891	7,702
TX	Wichita Fls/Sheppard	6,068	4,869	1,648	28,500	156	493
TX	Fort Worth	5,167	4,522	2,766	34,800	70	449
UT	Ogden/Hill AFB	5,289	4,138	2,382	34,800	256	626
VA	Quantico/Woodbridge*	7,587	6,125	2,358	33,500	48	270
VA	Hampton/Newport News	20,422	16,975	10,413	31,200	75	908
VA	Norfolk/Portsmouth	42,122	39,097	22,906	31,200	282	2,100
VA	Petersburg/Fort Lee	5,093	3,905	2,003	33,500	223	427
WA	Bremerton	4,229	3,539	2,237	32,600	36	174
WA	Seattle	1,743	1,479	1,089	38,200	18	57
WA	Spokane	4,433	2,922	1,408	29,900	0	327
WA	Takoma	30,012	25,284	13,815	31,000	515	1,735
WA	Whidbey Island*	4,484	3,656	1,998	33,000	60	408
AK	Anchorage	12,896	9,330	5,491	48,400	1,777	2,949
AK	Fairbanks***	6,792	4,142	1,889	41,600	318	780
HI	Honolulu County	46,399	30,495	12,755	36,500	493	4,681
	TOTALS	12,988	32,106	4,753	51,159	26,935	92,097

* State Median Income used
** O1s included in 60 percent of Median
*** W1s included in 60 percent of Median

Addendum to:

Affordable Housing for Military Families
State/Federal Inducement Programs

REVENUE RECONCILIATION ACT OF 1989
Partial Overview

Low-Income Housing Credit. Under present law, taxpayers investing in residential rental property which is used for low-income housing may be eligible for a tax credit which can be claimed over a 10-year period. The credit is based upon the cost of acquiring, constructing or rehabilitating property which was not placed in service within the preceding 10-year period, and which is occupied by low-income tenants and maintained for such use continuously throughout a 15-year compliance period. The annual amount of the credit currently approximates 9% of the expenditures made to construct new (or substantially rehabilitate) units for low-income housing if they are not federally subsidized, and approximates 4% of the expenditures for such units in all other cases. Projects eligible for the credit generally must have been placed in service by December 31, 1989.

The Act extends the low-income housing credit to qualifying properties which are placed in service through December 31, 1990, but contemporaneously reduces the state credit authority for the extension year by 25%. Certain properties which are financed with tax-exempt bonds issued before 1990 may be placed in service prior to 1992, if at least 10% of the costs are incurred before 1990. The Act also contains numerous changes which generally are effective with respect to state housing credit allocations made and property placed in service after December 31, 1989, including the following:

With certain exceptions, the credit will not be allowed for any acquired properties in the absence of substantial rehabilitation. In addition, the Act increases the level of expenditures which must be made in order for a rehabilitation to qualify as "substantial," and requires such amounts to be expended directly on the low-income units or their common areas. The standards are raised from an average of $2,000 per unit, to an average of $3,000 per unit or at least 10% of the unadjusted basis of the building (whichever is greater). Some exceptions to these rules apply to property acquired from governmental units.

- Property on which there is assistance provided under the HUD Section 8 Moderate Rehabilitation Program, is not eligible for the credit.

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- Certain federally-assisted buildings which may revert to market rate use due to a mortgage prepayment privilege, as well as buildings acquired from failed depository institutions, may qualify for the credit even though they were placed in service within the last 10 years.

- The Act requires that the property be subject to an extended (30-year) low-income use agreement between the taxpayer and the housing credit agency. The property may be converted to nonqualified use after the initial 15-year compliance period if, at anytime after the 14th year, the taxpayer requests the housing credit agency to find an eligible buyer at a specified price and the agency is unable to do so within 1 year. Upon conversion to nonqualified use, however, existing low-income tenants must be permitted to remain in their units for 3 years beyond the end of the 15-year compliance period.

<u>Passive activity loss limitation</u>. The Act provides that the low-income housing credit is eligible for the full $25,000 deduction-equivalent allowance under the passive activity loss limitation rules, without regard to the amount of the taxpayer's income, effective for property placed in service <u>after December 31, 1989</u> (provided, however, that interests in passthrough entities owning such property also are acquired after that date).